DOCUMENT RESUME

ED 332 297 EA 022 794

AUTHOR Strom, Tim
TITLE Minnesota School Finance: A Guide for Legislators.
INSTITUTION Minnesota House of Representatives, St. Paul. Research Dept.
PUB DATE Feb 90
NOTE 91p.
PUB TYPE Reports - Descriptive (141) -- Guides - Non-Classroom Use (055)

EDRS PRICE MF01/PC04 Plus Postage.
DESCRIPTORS *Educational Finance; Elementary Secondary Education; *Income; *Property Taxes; *Public Education; *State Aid
IDENTIFIERS *Minnesota

ABSTRACT

Following a brief introduction discussing Minnesota's educational finance system, recent finance litigation, and public education system, this report discusses basic school finance terms and concepts. The next two sections review the state's property tax system and its general education revenue program, including aid and levy calculations. Subsequent sections describe funding mechanisms for school transportation; special education; community, early childhood, and adult education; and vocational-technical education. Also described are capital finance methods, miscellaneous funds for education, teacher retirement funding, tax relief aids, and the school district accounting system. (MLH)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED332297

Minnesota School Finance

A Guide for Legislators

February 1990

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

✓ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

T. Strom

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

BEST COPY AVAILABLE

CS 022 794

BEST COPY AVAILABLE

SA

Minnesota School Finance

A Guide for Legislators

February 1990

This guidebook is a reference for the Minnesota school finance system, the method by which funds are provided for the operation of public elementary and secondary schools.

This guidebook was prepared by TIM STROM, Legislative Analyst in the House Research Department. Questions may be addressed to TIM at (612) 296-1886.

RUTH EMERSON provided secretarial support.

Contents

Page

Introduction 1

Historical and Legal Information 1

School Finance Litigation 2

Minnesota Descriptive Information 2

Basic School Finance Terms and Concepts 6

Overview of Minnesota's Property Tax System 10

Property Tax Terminology Prior to the 1988 and 1989 Legislative Changes 10

Property Tax Terminology After the 1988 and 1989 Legislative Changes 10

Difference Between Gross Tax Capacity and Net Tax Capacity 11

Conversion of Statutory Formulas 12

General Education Revenue Program 13

Components of General Education Revenue 13

Basic Education Revenue 13
Compensatory Education Revenue 14
Training and Experience Revenue 15
Secondary Sparsity Revenue 16
Elementary Sparsity Revenue 17
Supplemental Revenue 19
Fund Balance Reduction 19
Reserved Revenue 19

Aid and Levy Calculations 20

General Education Levy and Aid 20
General Education Levy Equity 20

Page

Other General Fund Programs 22

Shared Time Foundation Aid 22
Referendum Levy 22
Permanent School Fund Income 22
County Apportionment Aid 23
Summer School Programs 23

Transportation 24

Required Transportation 24

Authorized Transportation Aid 24

Components of Transportation Revenue for 1990-91 and Later 25

Example of Transportation Revenue Computation 29

Bus Purchase 32

Other Transportation Levies 32

Transportation Fees 32

Special Education Funding 33

Special Education Mandate 33

Special Education Funding Formula 33

Funding of Education for LEP Students 36

Special Education Levy 36

Funding of Community, Early Childhood, and Adult Education 38

Community Education Programs 38

Programs for Handicapped Adults 40

Early Childhood Family Education Programs 40

Adult Basic Education 42

Page

Vocational-Technical Education 43

Secondary Vocational-Technical Education 43

Secondary Vocational Aid 43
Secondary Vocational Education Aid for Handicapped Children 44

Capital Finance 45

Major Construction Projects 45

Review and Comment on Construction Projects 45

Debt Service Levy 45

Down Payment Levy 45

Maximum Effort School Aid Law 45

Cooperative Secondary Facilities Grant Program 48

Payment of Debt Service with Capital Expenditure Revenue 48

Capital Expenditure Revenue 48

Leased Facilities Levy 52

Miscellaneous Funds for Education 53

Aid Programs 53

Aid Adjustments 53
Aid for Nonpublic School Students 54
American Indian Programs 56
Comprehensive Arts Planning Grants 57
Minnesota Center for Arts Education 57
Regional Management Information Centers 58
Educational Cooperative Service Centers 59
Health and Developmental Screening Programs 59
School Lunch Aid 60
Categorical Programs That Have Been Combined 61

Miscellaneous Maintenance Levies 61

Miscellaneous Revenue Programs 62

Desegregation Revenue 62
Exceptional Need Aid and Levy 62
Interdistrict Cooperation Programs 63

Page

Teacher Retirement 67

Employer Contributions 67

Tax Relief Aids 69

Recent Changes 69

Homestead and Agricultural Credit 69
Education Levy Reduction 70
Disparity Reduction Aid 70
Homestead and Agricultural Credit Guarantee 71
Taconite Homestead Credit 71
Taconite Aid 71
Attached Machinery Aid 74
Other Credits and Reimbursements 74

School District Accounting 76

School District Accounting System 76

UFARS 76
Statutory Operating Debt 77

State Accounting Measures 78

Property Tax Shift and Levy Recognition 78

List of Tables

Table Number		Page
1	Characteristics of Minnesota Independent School Districts, 1987-88 School Year	3
2	Average Daily Membership in Minnesota Public Schools 1972-73 to 1996-97	4
3	Total School District Revenues 1987-88 Distribution by Fund and Source	5
4	Comparison of Terms	11
5	Comparison of Mill Rates and Tax Capacity Rates	12
6	Basic Education Formula Allowances	14
7	AFDC Characteristics for Selected Districts for the 1990-91 School Year	15
8	Training and Experience Revenue for Selected Districts for the 1990-91 School Year	16
9	Characteristics of Selected Large and Small Districts	18
10	Basic Transportation Tax Rates	26
11	Transportation Inflation Factors	28
12	Community Education Revenue	39
13	ECFE Revenue	41
14	Total Statewide Debt Service Levies	46
15	Leased Facilities Levy	52
16	Nonpublic School Public Transportation Costs	55
17	Health and Developmental Screening Aid	60
18	Employer Contribution Rates and Membership Counts, by Retirement Plan	68
19	Social Security Employer Contribution Rates	68
20	Total Costs of State Paid Credits	75
21	Relationship Among the Years	79
22	Example of Appropriations Payments	80
23	Metered Payments	81

Introduction

The Minnesota school finance system is the method by which funds are provided for the operation of public elementary and secondary schools. Historical, legal, and descriptive information provides the context for understanding the school finance system.

Historical and Legal Information

Public education in the United States is the legal responsibility of state government. In Minnesota, as in most states, the state constitution charges the Legislature with responsibility for public schools:

> *The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.*
> *(Minnesota Constitution, Article XIII, Section 1.)*

Minnesota delegates responsibility for the actual operation of schools to local school districts whose powers and duties are prescribed by state statute. Historically, the property taxes levied by the school boards governing these school districts have been the primary source of revenue for running schools. Some time after 1900, property taxes were supplemented by limited amounts of state appropriations for aid to school districts. By 1970-71, the Minnesota state foundation aid program provided all districts a flat grant per pupil unit (a pupil unit is a weighted enrollment measure), and provided some districts an additional "equalized" amount which varied inversely with a district's property valuation. Under this system, state aid funded about 43 percent of the cost of running schools, and school expenditures per pupil varied widely from district to district. Local property taxes rose rapidly in all districts in the late 1960's, and the tax rate for schools also varied widely among districts.

The 1971 Legislature addressed these disparities by substantially increasing the amount of equalized state foundation aid per pupil unit and imposing a uniform, statewide limit on the property tax rate for schools. The 1973 Legislature eliminated flat grants and established a system whereby the amount of foundation aid program revenue available per pupil unit to low spending districts would be increased to the state average over a six-year period. From 1973 to 1983, the Legislature adjusted the foundation aid formula several times making it more responsive to differences among districts and altering the relationship between local tax effort and state aid, without changing the formula's basic structure.

The 1983 Legislature enacted a new foundation aid program which became effective in the 1984-1985 school year. The new program replaced several components of the previous foundation aid formula (i.e., discretionary, replacement, grandfather and low fund balance aids and levies) with five tiers of optional aid and levy. The main characteristics of the new five tier program were: equal access to revenues; recognition of some specific cost differences; and more discretion on the part of school boards in choosing the necessary level of revenue.

The 1987 Legislature replaced the foundation aid program with a modified funding formula called the general education revenue program effective for the 1988-89 school year. Each school district's general education revenue is the sum of five components: basic revenue, compensatory revenue, training and experience revenue, sparsity revenue, and supplemental revenue. General education revenue is the primary source of general operating funds for Minnesota's 435 school districts. Operating expenses of the district include employee salaries, fringe benefits, and supply costs.

School Finance Litigation

During the 1970's and early 1980's, 29 states in addition to Minnesota adopted legislation to reform the school finance system by enacting or improving equalization formulas, which provide more state aid to districts with low property wealth. In many states, including Minnesota, court challenges to the constitutionality of traditional school finance systems added to the pressure for reform.

The earliest challenges under the equal protection clause of the Fourteenth Amendment to the United States Constitution ("...nor shall any state...deny to any person within its jurisdiction the equal protection of the laws") were unsuccessful. They claimed that the only permissible variations among public school expenditures should be based on "educational needs." This standard was found to be too political and unclear for a court to apply.

The second round of challenges under the Fourteenth Amendment proposed the standard of "fiscal neutrality:" the quality of a child's education, measured by the amount expended for that education, cannot be permitted to vary according to the property wealth of his or her parents and their neighbors; and the taxpayers in a property-poor district cannot be required to pay a higher tax rate than taxpayers in a property-rich district to attain the same quality of education for their children. This standard was first endorsed by the California Supreme Court under the federal and state equal protection clauses in its 1971 decision refusing to dismiss the complaint in the case of Serrano v. Priest. In short order a number of other courts also adopted the standard of fiscal neutrality, including the Minnesota federal district court in its October 1971 decision upholding the validity of the claim in the case of Van Dusartz v. Hatfield. This round of litigation came to an abrupt halt in March 1973, when the United States Supreme Court reversed a lower court's fiscal neutrality decision under the Fourteenth Amendment in the case of San Antonio Independent School District v. Rodriguez.

The third round of school finance litigation is occurring under the equal protection and education provisions of state constitutions. The Serrano case in California went to trial in 1974, and both the trial court and the state supreme court (in 1977) found that the school finance system violated the state equal protection clause under the principles of fiscal neutrality. Legal theories for suits under state constitutions' education clauses also include the arguments that school finance systems must provide for minimum levels of pupil achievement (e.g., New Jersey), must ensure that districts have the minimum resources necessary to supply a basic education (e.g., Washington, Ohio, West Virginia), must respond to differences among districts' tax burdens, costs and needs (e.g., New York, Wisconsin), or cannot predominantly base the availability of funds on voters' willingness to approve taxes (e.g., Ohio, Pennsylvania).

Challenges to school finance systems based on state constitutions are pending in several states, including Minnesota. In October 1988, a group of 48 suburban and greater Minnesota city school districts filed a lawsuit alleging that the state's current finance system is in violation of the state's constitution. While the suit contends the whole finance system is unconstitutional, it makes specific and repeated reference to the referendum levy, debt service levy, and supplemental revenue. A ruling on this suit is not expected until after the 1990 legislative session ends.

Minnesota Descriptive Information

Public elementary and secondary education is provided via a financial partnership between the state and 435 local school districts. These districts exhibit diversity in terms of enrollment, local property wealth, and expenditure levels, as shown by Table 1. In 1987-88, a full-time equivalent professional staff of 47,031 served approximately 716,000 students. In 1987-88 there were also an estimated 85,000 pupils enrolled in nonpublic schools, and 2,300 students attending home schools.

Enrollments in Minnesota's public schools have begun to grow again, after nearly 20 years of declining enrollment. Table 2 displays the state total enrollment history and projections for the period from 1972-73 to 1996-97.

The state and federal governments share in financial partnership with local districts for purposes of funding elementary and secondary education. For the 1987-88 school year, the state provided approximately 54 percent of the operating costs of elementary and secondary education. Local revenue sources provided approximately 42 percent of 1987-88 operating revenues, and the federal government provided approximately 4 percent.

The bulk of state support for elementary and secondary education is distributed to the districts through the general education revenue program, which provides money for the current operating expenditures of the districts, based upon a district's ability to pay as measured by adjusted gross tax capacity (AGTC). The remaining portion of the state's appropriation to local districts is provided through special purpose or categorical aids, such as special education and secondary vocational aids; and local property tax relief aids, including the homestead and agricultural credit aid. The state programs providing financial aid to Minnesota school districts are described in the following pages.

Table 1

CHARACTERISTICS OF MINNESOTA INDEPENDENT SCHOOL DISTRICTS, 1987-88 SCHOOL YEAR

	High	Low	Median	State Total
Average Daily Membership	43,656	16	713	716,305
# Professional Staff (full time equivalent)	2,809	12	47	47,031
1987 Adjusted Gross Tax Capacity Per Pupil Unit	$32,869	$25	$3,197	$3,822,385,945
Total PK-12 Operating Expenditures per WADM	$8,985	$2,639	$3,498	$3,028,837,440

Sources: School District Profiles, 1987-88, State of Minnesota, Department of Education, April 1989
Research Department, Minnesota House of Representatives

Table 2

AVERAGE DAILY MEMBERSHIP IN MINNESOTA PUBLIC SCHOOLS 1972-73 to 1996-97

School Year	Average Daily Membership	Percent Change From Prior Year
1972-73	903,778	-1.2%
1973-74	893,465	-1.0%
1974-75	884,648	-1.1%
1975-76	874,961	-2.1%
1977-78	831,250	-3.1%
1978-79	803,312	-3.5%
1979-80	772,101	-4.0%
1980-81	751,373	-2.8%
1981-82	729,105	-3.1%
1982-83	710,970	-2.6%
1983-84	700,183	-1.5%
1984-85	695-819	-0.6%
1985-86	699,250	+0.5%
1986-87	708,446	+1.3%
1987-88	716,120	+1.1%
1988-89*	723,287	+1.0%
1989-90*	731,454	+1.1%
1990-91*	745,228	+1.9%
1991-92*	761,830	+2.2%
1992-93*	777,900	+2.1%
1993-94*	792,540	+1.9%
1994-95*	807,011	+1.8%
1995-96*	818,219	+1.4%
1996-97*	826,521	+1.0%
1997-98*	831,360	+0.6%
1998-99*	832,300	+0.1%

*Projected

Sources: Minnesota Public School Enrollment Projections--1988 Edition, State of Minnesota, Department of Education, April, 1988; Pupil Unit Estimates, Minnesota Department of Education, January 23, 1989

Table 3

TOTAL SCHOOL DISTRICT REVENUES* 1987-1988
DISTRIBUTION BY FUND AND SOURCE

School District Fund Allocations	% Of Total Revenues	% From Local Sources	% From State Sources	% From Federal Sources
General Operating	74.7	37.7	59.2	3.1
Food Service	3.4	57.4	3.4	39.1
Pupil Transportation	5.5	42.7	57.3	0.0
Community Service	2.6	65.1	32.6	2.2
Capital Expenditure	4.0	72.0	27.2	0.8
Debt Redemption	3.7	76.8	23.2	0.0
Building Construction	5.7	99.5	0.4	0.1
Trust and Agency	0.4	91.2	1.7	7.1
TOTAL	100.0	45.9	50.3	3.8

* Excludes AVTI Revenues

Source: Minnesota Department of Education, SDE/FIN report, Revenue Source by Fund, 1987-88.

Basic School Finance Terms and Concepts

The following terms and concepts are essential to an understanding of Minnesota's school finance program.

Assessed Property Valuation: The value placed on real property by the county assessor and used as a basis for computing taxes. In Minnesota this value is derived by multiplying the market value of the property by classification (use) ratios. Assessed valuation is replaced by tax capacity beginning with the levies payable in 1989.

Adjusted Assessed Property Valuation (AAV): The assessed value of the real property in a school district as adjusted by the Department of Revenue (this adjustment was formerly made by the Equalization Aid Review Committee (EARC)) through the use of ratios comparing the actual sales and rental price of property with its assessed value. The purpose of such adjustments is to neutralize the effect of different assessment practices among the taxing jurisdictions of the state. This term is replaced by the term "adjusted tax capacity" under the new property tax system.

Adjusted Tax Capacity: Adjusted gross tax capacity (AGTC) and Adjusted Net Tax Capacity (ANTC) are the amounts of tax base that result from dividing the tax capacities of the taxing jurisdiction by the sales ratios. Adjusted Tax Capacities replace adjusted assessed valuations.

Average Daily Membership (ADM): The sum for all pupils of the number of days in the district's school year each pupil is enrolled, divided by the number of days the schools are in session.

Basic Maintenance Mill Rate: Replaced, beginning with the 1988-89 school year, with the general education tax rate. For school years prior to 1988-89, the basic maintenance mill rate was the rate used to determine the dollar amounts that a district may levy under the basic foundation aid formula.

Year Certified	Year Paid	Tax Rate	Dollars Raised Statewide
1985	1986	23.2*	$702,000,000
1986	1987	22.7*	$692,000,000
1987	1988	35.9*	$1,079,000,000
1988	1989	29.3**	$1,100,580,000
1989	1990	26.3***	$792,000,000

* General education mill rate
** Adjusted Gross Tax Capacity rate
*** Adjusted Net Tax Capacity Rate

Categorical Aid: Funds paid by the state to school districts and designated for specific purposes, such as transportation, special education for handicapped children and vocational education.

Elementary Sparsity Revenue: Revenue available to small, sparsely populated school districts. Elementary sparsity revenue is part of general education revenue. To qualify for elementary sparsity aid a district must have an elementary school that is at least 20 miles from the next nearest elementary school and have an average of 20 or fewer students per elementary grade.

Equalizing Factor: The maximum amount of adjusted taxable valuation per pupil unit a district may have without going "off the formula"--i.e., becoming disqualified from receiving basic general aid. A district receives no general education aid when the amount raised by the general education tax rate times its adjusted tax capacity exceeds its general education revenue (i.e., number of pupil units

times the formula allowance). The equalizing factor is computed by dividing the basic formula allowance by the general education tax rate.

Year Certified	Year Paid	School Year	Equalizing Factor
1984*	1985	1985-86	$67,447
1985*	1986	1986-87	$72,845
1986*	1987	1987-88	$74,890
1987*	1988	1988-89	$76,184
1988*	1989	1989-90	$78,212
1988**	1989	1989-90	$9,556
1989***	1990	1990-91	$11,228

* Based on adjusted assessed valuation and mill rates
** Based on Adjusted Gross Tax Capacity
*** Based on Adjusted Net Tax Capacity

Fiscal Year: A 12-month period between settlements of financial accounts. The fiscal year for the state and school districts runs from July 1 through June 30, and is identified by the calendar year in which it ends. For example, fiscal year 1989 runs from July 1, 1988 through June 30, 1989. A fiscal year is interchangeable with a school year for school finance purposes. For example, fiscal year 1989 is equivalent to the 1988-89 school year.

Formula Allowance: The dollar amount per pupil unit used to calculate each district's basic general revenue -- the "front end" of the formula.

School Year	Formula Allowance
1985-86	$1,585
1986-87	$1,690
1987-88	$1,720
1988-89	$2,755*
1989-90	$2,838
1990-91	$2,953

* Much of the jump in the formula allowance between 1987-88 and 1988-89 is due to the inclusion of teacher retirement and other categorical aids in the general education program.

Foundation Aid: Replaced by general education aid. Funds paid by the state to school districts and permitted to be used for any operating expense. Foundation aid was comprised of: basic foundation aid; five tiers of discretionary aid which were equalized at differing percentages of the equalizing factor; declining pupil unit aid; minimum aid; and shared time pupil aid.

General Education Aid: Funds paid by the state to school districts and permitted to be used for any operating expense. Replaces foundation aid.

General Education Tax Rate: The tax rate, that when multiplied by the adjusted taxable property of all districts raises the dollar value specified in statute. Prior to levies made in 1985, the legislature set the mill rate instead of the total dollar value that was to be raised.

General Education Revenue: Replaces foundation revenue. General education revenue is comprised of: basic general education revenue; compensatory revenue; training and experience revenue; elementary and secondary sparsity revenue; and supplemental revenue.

Gross Tax Capacity: Gross Tax Capacity is a definition of taxable value where the relationship among classes of property is similar to assessed valuation. However, the classification ratios (the rates applied against market value for each class of property to determine taxable value) are approximately 8 times smaller than the classification ratios used to form assessed valuation. The class rates used to determine Gross Tax Capacity, like assessed valuation, are designed to oeprate in concert with the agricultural and homestead credit.

Levy: A tax imposed on property. The amount of property taxes which a school board may levy is limited by statute. Each autumn, the state department of education computes the exact amounts of the limits on the permitted levies for each district. For levies based on adjusted tax capacity, the previous year's adjusted tax capacity value is used. Each year, school boards hold truth-in-taxation hearings and then vote on how much to levy and "certify" the levy to the county auditor. A levy certified in the late fall is collected in the calendar year beginning the following January. (See Table 21 on page 79 for illustration of the relationship among the years for valuation and the certification, collection and use of levies.)

Maintenance Levies: Levies used to pay for the current operating expenses of the district. For levies certified in 1988 payable in 1989, and later, "maintenance levies" include the basic maintenance levy, supplemental levy, referendum levy, desegregation levy, unemployment insurance levy, and interdistrict cooperation levy.

Mill Rate: A number which is multiplied by property valuation in order to determine the amount of property taxes. A mill is $.001, so that, for example, a tax rate of 12 mills is applied by multiplying .012 times the valuation. In other words, the actual tax is determined using the mill rate divided by 1,000. Thus, if the valuation is $1,000,000, a 12 mill tax is computed as .012 x $1,000,000, which equals $12,000. Mill rates have been replaced by tax capacity tax rates.

Net Tax Capacity: Net Tax Capacity is a definition of tax base, that like Gross Tax Capacity, is expressed as a small percent of market value. Net Tax Capacity, unlike Gross Tax Capacity, alters the relative ratios among classes of property. Two classes of property are significantly affected by these alterations: Homestead Property is given a relatively lower rate because the homestead credit is no longer parcel specific; and Agricultural property has a lower rate because the agricultural credit is no longer parcel specific. Net Tax Capacity also has a relatively lower commercial-industrial rate.

Pupil Unit: A weighted count of resident pupils in average daily membership used in the calculation of state aid and local tax levies.

1. **Annual Enrollment Weighted by Grade**

   Kindergarteners are counted at .5 pupil units, elementary students at 1.0 pupil units and secondary students beginning with the 1988-89 school year at 1.35 pupil units. (Prior to the 1988-89 school year, secondary students were counted at 1.40 pupil units.) Handicapped pre-schoolers are counted according to the number of hours of education they receive, with a minimum of .5 pupil units. This pupil unit count is often called "actual pupil units", "weighted average daily membership," or "WADM." A district's WADM changes every year as its enrollment changes.

2. **AFDC Pupil Units**

   Prior to the 1988-89 school year, AFDC or compensatory revenue was provided to school districts through additional pupil units. Through the 1985-86 school year, districts were considered to have 98.5% of the number of AFDC pupil units they had in 1980-81. Since the 1986-87 school year, AFDC pupils have been computed annually based on the actual number of AFDC pupils in the district in the preceding October, rather than frozen at 98.5% of the 1980-81 AFDC pupil count. AFDC pupil units amount to .5 pupil unit for each student whose family receives Aid to Families with Dependent Children. Districts which have a concentration of

AFDC students of 6% or more of the enrollment receive an additional .1 pupil unit per AFDC student for each percent of concentration greater than 5 percent, up to a maximum of .6 extra units.

Sales Ratio: A sales ratio is a measure prepared by the Department of Revenue that compares the actual sales price of property with the assessor's market value on that property. The purpose of the sales ratio is to neutralize the effect of different assessment practices among the taxing jurisdictions of the state. This is a critical component of an equalized system of school financing. The sales ratio is divided into the taxable value to obtain the adjusted tax capacity of a school district.

Secondary Sparsity Aid: Aid paid to small, sparsely populated school districts. The sparsity aid formula takes into account the secondary enrollment, the distance between high schools, and the surface area of the district. Sparsity aid is a component of the general education revenue program.

Tax Capacity: Amount of tax base of taxing jurisdiction obtained by multiplying the market values of all property in the taxing jurisdiction by the tax capacity percentages. Gross tax capacities replace assessed values for taxes payable in 1989. Net tax capacities are the measure of tax base that are used for most school taxes payable in 1990 and later years.

Tax Capacity Percentages: Statutory classification percentages that are applied to market values. Tax Capacity Percentages replace classification ratios.

Tax Capacity Rate: The rate arrived at by dividing the district's tax levy amount by the district's total tax capacity. Tax capacity rate replaces the term mill rate.

UFARS (Uniform Financial Accounting and Reporting Standards): Rules and instructions adopted by the state Board of Education under legislative mandate to govern the methods by which school districts record financial transactions and inform the state department of education about their finances.

Overview of Minnesota's Property Tax System

The property tax changes passed during the last several legislative sessions have replaced Minnesota's system of assessed valuations and mill rates with a new terminology of tax capacities and tax capacity rates. In order to understand the new property tax terminology it is important to have some familiarity with the former property tax terminology.

Property Tax Terminology Prior to the 1988 and 1989 Legislative Changes

Property taxes are taxes on real property and certain types of personal property. In Minnesota, property taxes are levied by local units of government subject to state maximums and minimums. The amount of tax that each property taxpayer will pay is determined as follows:

1. Each individual parcel of property is valued by an assessor. This value is referred to as **market value**. Market value is the value, as the name implies, that the property would bring in a sale on the open market.

2. The Legislature establishes **classification ratios** for different types of property (e.g. homestead, commercial, rental, etc.) and the assessor applies the appropriate classification ratio to each parcel of property. The resulting value is called **assessed value**. Assessed value is the value of the property that the property taxes will be levied against.

3. The property taxes levied against each parcel of property are computed by the county auditor who adds up the total dollars of property tax levied by each local unit of government and determines what rate of taxation needs to be applied to the assessed valuation of the taxing jurisdictions in order to raise that dollar amount.

4. The rate of taxation is called the **mill rate**. A mill is simply 1/1000 of each dollar (0.1 cents) of value. A 100 mill levy therefore raises 0.1 dollars (10 cents) for each dollar of taxable value.

5. The property taxpayer receives a statement listing the total mill rate levied by each taxing jurisdiction and the total dollar amount of taxes owed (after credits).

Property Tax Terminology After the 1988 and 1989 Legislative Changes

Under the new property tax terminology the basics of Minnesota's system remain nearly unchanged. However the names and the nominal values have been substantially altered.

1. The concept of **market value** remains unchanged.

2. Classification ratios have been altered in magnitude and renamed **tax capacity percentages**. In general, net tax capacity percentages are about 10 times smaller than the comparable classification ratios and gross tax capacity percentages were about 8 times smaller than the comparable classification ratios. Just as with classification ratios, the appropriate tax capacity percentages are applied by the assessor to the market value of each parcel of property to determine the taxable value of the property. The resulting measure of tax base, which replaces assessed value, is called **tax capacity**. Tax capacity is the value of the property that the property taxes will be levied against. Because the tax capacity percentages are much smaller than the classification ratios, tax capacity values are much smaller than assessed values.

3. The property taxes levied against each parcel of property are computed by the county auditor in the same way as before. One change, which is primarily for property tax credit aid distributions, is the formal naming of the unique taxing jurisdiction. Unique taxing jurisdictions are the geographic regions that are subject to the same county, city (or town), school district, and special taxing jurisdiction taxes.

4. The rate of taxation is renamed **tax capacity rate**. The tax capacity rate is expressed as a percentage of taxable value. A 50% tax capacity percentage therefore raises 0.5 dollars (50 cents) for each dollar of taxable value. Because tax capacity is much smaller than assessed value, a much larger rate of taxation is necessary under the tax capacity system to raise the same amount of revenue. Therefore, net tax capacity rates are approximately 10 times as large as mill rates, and gross tax capacity rates were about 8 times larger than mill rates.

Table 4

COMPARISON OF TERMS

Old system	New System	Approximate Relative Weight of new system to old
Market Value	Market Value	Same
Assessed Value	Tax Capacity	10 times smaller for net tax capacity 8 times smaller for gross tax capacity
Sales Ratio	Sales Ratio	Same
Adjusted Assessed Value	Adjusted Tax Capacity	10 times smaller for adjusted net tax capacity 8 times smaller for adjusted gross tax capacity
Mill Rate	Tax Capacity Rate	10 times larger for ANTC rates 8 times larger for AGTC rates

Difference Between Gross Tax Capacity and Net Tax Capacity

Gross Tax Capacity (GTC) is larger than Net Tax Capacity (NTC) for all types of property that used to receive homestead credit and agricultural credit. By using the lower NTC rates on agricultural property and on the first $68,000 of market value of homestead property, NTC results in a targeting of property tax relief to these properties. This targeted relief replaces the property tax relief a taxpayer is provided through the homestead and agricultural credit. As a result, overall net tax burdens between classes of property remain constant and Homestead and Agricultural Credit Aid (HACA) becomes a general aid to the local government no longer directly linked to the amount of homestead property in the taxing jurisdiction. Because HACA is still provided to the taxing jurisdiction, the overall level of state funded property relief is maintained.

Conversion of Statutory Formulas

Many statutory formulas in the school finance area are expressed in mill rates and adjusted assessed valuations. The 1988 and 1989 tax and education bills included conversion methods to change school levies expressed in mill rates and adjusted assessed valuations into equalized tax capacity rates. Equalized gross tax capacity rates were obtained by multiplying the statutory mill rates by the ratio of the state total adjusted assessed valuation to the state total adjusted gross tax capacity. The equalized tax capacity rates are calculated to the same number of significant digits as the mill rate limitations. The following is a list of the levies expressed in adjusted assessed mills and adjusted gross tax capacity rates.

Table 5

COMPARISON OF MILL RATES AND TAX CAPACITY RATES

Program Name	Mill Rate in Statute	Adjusted Gross Tax Capacity Rate
Adult Basic	0.1	0.08
Community Education	0.8	0.7
Desegregation	1.0	0.8
Desegregation Rule compliance levy	1.0	0.8
Education District	1.3	1.1
EFCE	0.5	0.4
Interdistrict Cooperation	1.0	0.8
Intermediate Special Education	0.6	0.5
Intermediate Vocational Education	0.7	0.6
Maximum Effort (loans after 7/31/81)	16.0	13.08
Minneapolis Health Insurance	0.2	0.2
Operating Debt (Buhl-Mt. Iron)	4.0	3.3
SOD, Operating Debt	1.5	1.2
Vocational Cooperatives	0.4	0.3

Source: Minnesota Department of Education, Levy Limit conversion memorandum

General Education Revenue Program

Elementary and secondary schools receive the bulk of their general operating funds and levy authority from the state through the general education revenue program. School district revenue is provided through state aid payments and local property taxes by use of an equalized formula (equalization is discussed more fully on page 20). The general education revenue program contains the new formulas used to determine each school district's general education aid and levy.[1]

Components of General Education Revenue

The general education revenue funding formula, effective beginning with the 1988-89 school year, replaces the foundation aid formula as the primary source of general operating funds for school districts. Each district's general education revenue is the sum of four components: basic revenue, compensatory education revenue, training and experience revenue, and sparsity revenue.

General education revenue is also subject to a fund balance subtraction, and a hold-harmless provision, called supplemental revenue, exists to ensure that no district's revenue per pupil will decline because of the new formula. Minnesota's 435 school districts use general education revenue to pay operating expenses of the district, including employee salaries, fringe benefits, and supply costs.

Basic Education Revenue

-- M.S. 124A.22, subdivision 2

Basic education revenue for each district equals the product of the formula allowance multiplied by the actual pupil units for the school year. Actual pupil units or weighted average daily membership (WADM), is a statutorily defined count of pupils in daily attendance.[2] The formula allowance for the 1989-90 school year is $2,838 per WADM. The formula allowance for the 1990-91 school year is $2,953. Each district is required to spend at least $10 of the formula allowance on staff development.[3]

---

[1]The general education revenue program replaced the foundation aid program. A detailed description of the five tier foundation aid program may be found in the July 1986 House Research publication, **Minnesota School Finance: A Guide for Legislators**.

[2]Page 8 provides additional information on pupil unit weights and calculations.

[3]Districts may use staff development revenue only for purposes contained in the district's staff development plan. Uses of the staff development funds include educational effectiveness programs; in-service education of staff and teachers; mentoring; increased parental and community involvement; and experimental delivery systems.

Table 6

BASIC EDUCATION FORMULA ALLOWANCES

School Year	Formula Allowance
1990-91	$2953
1989-90	$2838
1988-89	$2755
1987-88	$1720[4]
1986-87	$1690

Compensatory Education Revenue

-- M.S. 124A.22, subdivision 3

Compensatory education revenue replaces the provision known as AFDC revenue. Prior to the 1988-89 school year, districts received additional amounts of basic foundation revenue because pupils from AFDC families were added to the measure of total pupil units. The general education revenue formula removes the AFDC pupil units from the measure of total pupil units and creates a separate category of revenue called compensatory revenue.

A district must have at least six percent of its students counted as AFDC pupil units before it is eligible to receive compensatory revenue. A district's compensatory revenue is calculated by multiplying the concentration units[5] by the actual number of AFDC pupils times the formula allowance. Limiting compensatory revenue to only districts that have at least a six percent concentration ratio reduces the number of districts receiving compensatory revenue. In the 1987-88 school year, 432 districts received AFDC revenue. In the 1990-91 school year, 134 districts will receive compensatory revenue.

Compensatory education revenue must be used only for pupils whose educational achievement is below the level that is appropriate for their age. The money cannot be targeted directly to AFDC students because the identity of the AFDC pupils is confidential and not known to the district. Specific uses of the revenue include:

- remedial instruction and materials for remedial instruction
- increasing individualized instruction
- summer programs
- in-service training for staff to identify low achievement pupils
- bilingual and bicultural programs

[4]Because of the change in the pupil unit weighting (see p. 8, pupil unit calculations for details), the elimination of teacher retirement aid, certain categorical aids and levies, and the elimination of the tiers, the $2755 per pupil unit is not directly comparable to the basic revenue allowance of $1720 per pupil unit that the districts received for the 1987-88 school year.

[5]See page 8 for an explanation of concentration units.

The following tables display some characteristics of several selected districts and the resulting AFDC or compensatory revenue.

Table 7

AFDC CHARACTERISTICS FOR SELECTED DISTRICTS FOR THE 1990-91 SCHOOL YEAR

Dist. No.	District Name	WADM	AFDC Pupils	AFDC Formula Pupil Units	% AFDC	AFDC Revnue	AFDC Revenue Per WADM
38	Red Lake	1,080	541	324	50.1%	$958,051	$887
1	Minneapolis	44,644	13,507	8,104	30.3%	$23,981,134	$536
625	St. Paul	36,867	9,573	5,744	26.0%	$16,960,990	$460
709	Duluth	15,729	2,380	1,428	15.1%	$4,216,891	$268
692	Babbitt	634	72	43	11.4%	$128,229	$202
282	St. Anthony	1,106	56	0	5.1%	0	0
264	Herman	333	12	0	3.7%	0	0
833	So. Washington	12,473	373	0	3.0%	0	0
273	Edina	6,466	30	0	0.5%	0	0

Training and Experience Revenue

-- M.S. 124A.22, subdivision 4

Districts receive additional revenue if they have a teaching staff with either many years of experience or high levels of educational achievement relative to other districts in the state. The Minnesota Department of Education develops an index to measure these factors, commonly referred to as the training and experience index, or T&E index, and calculates each district's T&E index number. The index is developed from statewide data and is intended to be neutral as to actual salary levels in individual districts. Under the foundation program, any district with an index number in excess of 1.25 received T&E revenue. Under the general education revenue formula, a district will receive T&E revenue only if the district's T&E index number is in excess of 1.60. The new training and experience formula is

$$\{ \text{(district's T\&E index - 1.60) x \$700 x WADM} \}$$

Total T&E revenue for all districts in the state for the 1987-88 school year was approximately $128 million. The general education revenue formula substantially reduces the number of districts that receive T&E revenue and also reduces the amount of T&E revenue received by qualifying districts. Total T&E revenue for the 1990-91 school year is estimated to be $14.5 million. In the 1990-91 school year, 42 districts will receive T&E revenue.

Table 8 displays the relative amounts of T&E revenue received by selected districts.

Table 8

TRAINING AND EXPERIENCE REVENUE FOR SELECTED DISTRICTS FOR THE 1990-91 SCHOOL YEAR

Dist. No.	District Name	T&E Index Number	T&E Revenue	T&E Revenue Per WADM
271	Bloomington	1.7954	$1,792,645	$137
283	St. Louis Park	1.7545	$464,184	$108
273	Edina	1.7395	$633,668	$98
191	Burnsville	1.7204	$919,464	$84
535	Rochester	1.6878	$912,255	$61
152	Moorhead	1.6481	$198,968	$34
413	Marshall	1.4517	0	0
272	Eden Prairie	1.4496	0	0
882	Monticello	1.3945	0	0
352	Humboldt-St. Vincent	1.2619	0	0

Secondary Sparsity Revenue

-- M.S. 124A.22, subdivisions 5 and 6

Secondary sparsity revenue is intended to provide additional revenue to geographically large districts that have relatively few secondary pupils. The formula measures sparsity and isolation of the district and then provides additional revenue to the district using an assumption about how many pupil units are necessary to run an acceptable secondary program. The formula assumes that a district with 400 secondary pupils in average daily attendance can provide an acceptable secondary program. Therefore a district with one high school, no matter how few pupils per square mile it has, will not receive any sparsity aid if the district has a secondary average daily membership (SADM) in excess of 400. In addition, the requirement of large geographic size ensures that districts have few pupils due to geographic isolation and not "choice."

Secondary sparsity revenue under the foundation program was set equal to the sparsity aid the district received in 1980-81 multiplied by two and inflated by the foundation aid formula allowance inflation factor. General education sparsity revenue is computed as follows

$$\left\{ \begin{matrix}\text{formula}\\ \text{allowance}\end{matrix} \times \text{SADM} \times [(400-\text{SADM})/(400+\text{SADM})] \times [(\begin{matrix}\text{isolation}\\ \text{index}\end{matrix} - 23)/10] \right\}$$

The factors used in the new sparsity formula have remained the same but the values of the factors have been changed under the general education formula.[6]

[6]Under the foundation aid program sparsity aid was available to districts with an isolation index of 18 or more, and established 500 SADM as the number sufficient to operate a secondary program.

Elementary Sparsity Revenue

-- M.S. 124A.22, subdivisions 5 and 6a

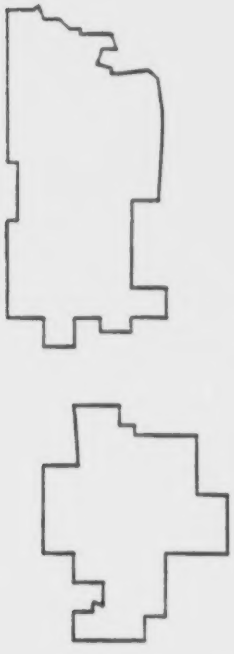
Elementary sparsity revenue is available to qualifying districts beginning with the 1990-91 school year. In order to qualify for elementary sparsity aid, a district must have an elementary school that is located 20 or more miles from the next nearest elementary school, and have fewer than 20 pupils per elementary grade.

$$\text{Elementary sparsity revenue} = \text{formula allowance} \times \text{EADM} \times \frac{140 - \text{EADM}}{140 + \text{EADM}}$$

Table 9 (page 18) displays some characteristics of the most sparse and least sparse districts in the state.

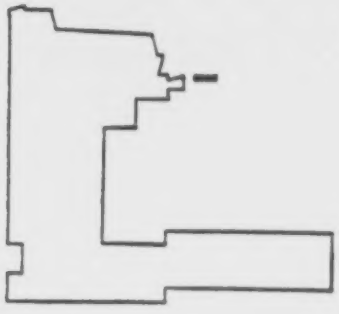
Table 9
CHARACTERISTICS OF SELECTED LARGE AND SMALL DISTRICTS

Geographically Largest District



School District #	710
Name	St. Louis County
WADM	2,868
SADM	1,191
Population	14,012
Area in Sq. Miles	2,714
Pupils per Sq. Mile	1.1
Sparsity Rev. per WADM	$267
Number of Schools	9 elementary 6 secondary

Sparsest District



School District #	363
Name	South Koochiching
WADM	400
SADM	166
Population	1,830
Area in Sq. Miles	1,752
Pupils per Sq. Mile	0.2
Sparsity Rev. per WADM	$813
Number of Schools	2 elementary 2 secondary

Geographically Smallest District

School District #	147
Name	Dilworth
WADM	618
SADM	253
Population	2,119
Area in Sq. Miles	1.8
Pupils per Sq. Mile	378
Sparsity Rev. per WADM	$0
Number of Schools	1 elementary 1 secondary

Densest District

School District #	1
Name	Minneapolis
WADM	44,644
SADM	15,689
Population	371,315
Area in Sq. Miles	59
Pupils per Sq. Mile	757
Sparsity Rev. per WADM	0
Number of Schools	40 elementary 13 secondary

Additional Elements Affecting General Education Revenue

In addition to the preceding formula elements three other adjustments are made to each district's general education revenue allowance.

Supplemental Revenue

-- M.S. 124A.22, subdivisions 7 and 8

Supplemental revenue, often called "hold harmless revenue", ensures that per pupil unit funding is not reduced for any district because of the change from the foundation aid program to the general education revenue program. All districts are guaranteed $70 per pupil unit more for the 1988-89 school year than they received from the foundation aid program for the 1987-88 school year. For the 1989-90 school year, all districts are guaranteed at least $105 per pupil unit more than they received in the 1987-88 school year. For the 1990-91 school year, all districts are guaranteed at least $258 per pupil unit more than they received in 1987-88. Because the new general education formula may generate substantially fewer dollars for some districts than the foundation formula, supplemental revenue may amount to several hundred dollars per pupil unit. The supplemental revenue available to the district is in addition to the other general education aid and levy and is provided in the same mix of aid and levy as general education revenue. A district qualifying for supplemental revenue will therefore levy at a higher tax rate than the rate required by the general education formula. As a result, districts receiving supplemental revenue will levy more than the 26.3 percent of ANTC for the general education revenue program in the 1990-91 school year.

Fund Balance Reduction

-- M.S. 124A.26

A district's general education revenue per pupil unit can be reduced below the basic general education formula allowance if the district has an excess fund balance. A district's revenue is reduced if the district's net unappropriated operating fund balance is in excess of $600 per pupil unit. A similar provision existed under the foundation aid program for districts with fund balances in excess of $500 per pupil unit. The fund balance reduction is equal to the amount of the excess, but limited to a maximum of $150 per pupil unit.

Reserved Revenue

-- M.S. 124A.27

Reserved revenue requires that 2.2 percent of a district's basic revenue be spent on any combination of the following programs: arts education; chemical abuse prevention; gifted and talented; Programs of Excellence; summer school; and fees for advanced placement and international baccalaureate programs.

Aid and Levy Calculations

School districts receive general education revenue from state aid payments and local property taxes. The mix of aid and levy is designed to equalize local tax burdens. A school finance program that provides the same amount of revenue per pupil unit to each district and requires the same tax rate of local effort is said to be fully equalized. Under an equalized system, the higher a district's property wealth per pupil unit, the lower the amount of general education aid the district receives from the state and the higher the amount of revenue provided through the local district's property tax.

General Education Levy and Aid

-- M.S. 124A.23

For the 1989-90 school year, the total local levy of all districts for the general education programs is required to raise $1,079,000,000. To raise this revenue statewide, a tax rate of 29.3 percent of Adjusted Gross Tax Capacity is necessary.

For the 1990-91 school year, the levy dollars raised are significantly lower because of two legislative changes: 1) The majority of the Homestead and Agricultural Credit Aid (HACA) paid to school districts is added to the general education aid instead of being subtracted from the district's gross certified levy. The change in the order of the calculations does not affect the school district's aid, levy or revenue. Rather, it shifts the HACA to the aid calculation prior to the determination of the district's gross certified levy. 2) A second transfer of aid was also made. Approximately $100 million of state aid paid to other units of local government was shifted to the school aids formulas. As a result, school levies were reduced and other local levies were increased. Again, there is no change in revenue because of this transfer of state aid.

These two changes reduced the required general education levy to $792,000,000. A tax rate of 26.3 percent of Adjusted Net Tax Capacity (ANTC) is necessary to raise this amount of levy statewide.

Not all districts levy the required tax rate for the general education program. Some districts with relatively high property wealth are able to raise the whole amount of general education revenue with a lower tax rate. Districts that can raise their entire general education revenue with a lower tax rate are called off-formula districts. As a result, these districts would pay a lower tax rate than other districts. However, Minnesota is phasing in a program called levy equity or aid recapture which requires these off-formula districts to levy at the same rate as all other districts

General education aid for each district is calculated by subtracting the district's general education levy from the district's general education revenue. The difference, called general education aid, is paid to the school district by the state. The proportion of general education aid that is received by each district depends on the district's relative property wealth per pupil unit. Relatively wealthy districts will receive no regular general education aid, while relatively poor districts will receive most of their general education revenue in the form of state aid payments.

General Education Levy Equity

-- M.S. 124A.24

The 1987 Legislature reinstated the phase-in of levy equity. Levy equity, known by a variety of other names, including aid recapture and revenue equity, is a procedure designed to more fully equalize tax rates among districts.

Districts with very high levels of property wealth per pupil unit can generate all of their general education revenue by levy; in fact, some districts would actually generate more general education revenue than allowed if they levied at the required tax rate. Under a school finance formula without aid recapture, the district's tax rate is reduced to the level where the total levy is equal to the maximum amount of revenue allowed. With aid recapture, a district is required to levy the full tax rate required and the amount of revenue generated by the levy in excess of the maximum allowed revenue is subtracted (recaptured) from the district's other state aid payments.

For the 1990-91 school year, aid recapture will only affect three school districts. This is because of the increase in general education aid and the reduction in the general education levy. The combined result is a higher equalizing factor which means that a district's tax base per pupil unit can be higher before the district will go off-formula. The three districts still subject to aid recapture are Prinsburg, Becker, and Humboldt-St. Vincent.

The following is an example of how aid recapture will affect a hypothetical school district during the 1990-91 school year.

Aid Recapture Example

Assumptions:

WADM	=	1,000
Formula Allowance	=	$2953
Mill Rate	=	26.3% of ANTC
ANTC Value	=	$20,000,000
Other State aid	=	$2,000,000

The district's maximum general education revenue is computed by multiplying actual pupil units (WADM) by the formula allowance.

(1,000 x $2953) = $2,953,000

The district's required levy is the tax rate times the Adjusted Net Capacity of the district.

(.263 x $20,000,000) = $5,260,000

In a finance system without aid recapture the district's levy would be reduced to raise only the maximum amount of revenue permitted. The district's tax rate without aid recapture would be .148 of ANTC.

($2,953,000 - $20,000,000) = .148 or 14.8% of ANTC

With aid recapture, and in the third year phase-in of aid recapture, the tax rate is increased by one-half of the difference between the amount the levy would raise and the maximum allowable revenue. The difference is subtracted from the district's other state aid payments.

[($5,260,000 - $2,953,000) x .5] = $1,153,500

The required levy must raise $4,106,500 ($2,953,000 + $1,153,500)

The district must levy a tax rate of 20.53% of ANTC to raise $4,106,500.

The additional $1,153,500 raised by the aid recapture levy reduces the district's other state aid payments to $846,500 ($2,000,000 - $1,153,500).

Aid recapture has no effect on the district's total revenue. However, in this example the district's levy is increased by $1,153,500 and its other state aid payments are reduced by the same amount.

The effect of aid recapture is to raise the affected districts' tax rates and correspondingly reduce their state aid payments. Levy equity, or aid recapture, has had a tumultuous existence and seems to be continually repealed, reinstated or modified by the Legislature.

- The 1983 Legislature voted to phase-in levy equity over a six year time period.
- The 1985 Legislature repealed levy equity.
- The 1987 Legislature voted to phase-in levy equity over a four year period beginning with the 1988-89 school year.
- The 1988 Legislature lengthened the phase-in from four to six years beginning with the 1989-90 school year as the second year of the phase-in.

The phase-in schedule as it now exists is:

Year	Phase-in Percentage
1987-88	None
1988-89	1/4
1989-90	1/3 (2/6)
1990-91	1/2 (3/6)
1991-92	2/3 (4/6)
1992-93	5/6
1993-94	Fully phased-in

Other General Fund Programs

Shared Time Foundation Aid

-- M.S. 124A.02, subdivisions 20-22; 124A.034

Districts receive a proportionate amount of general education aid for nonpublic school pupils who attend public school programs for part of the school day.

Referendum Levy

-- M.S. 124A.03, subdivision 2

A district's basic maintenance levy can be increased with the approval of the voters at a referendum called by the school board on its own initiative or on the petition of 15 percent of the school district residents. An election may only be held during the November election. Increases approved after 1989 are limited to a specific number of years stated on the ballot. A similar election can reduce or revoke the increase. There is no matching general education aid for a referendum levy.

Permanent School Fund Income

-- M.S. 124A.035, subdivision 2

General education program aid is reduced by a district's income from the permanent school fund (proceeds of lands dedicated by the Federal government at statehood and state swamplands).

County Apportionment Aid

-- M.S. 124.10, subdivision 2, 124A.035, subdivision 4

General education aid is also reduced by an amount equal to the district's share of county apportionment funds (miscellaneous fines and fees collected by counties and apportioned to school districts).

Summer School Programs

-- M.S. 124A.27, subdivision 9

Summer school programs are no longer separately funded. A district may use reserved revenue from the general education aid program to fund summer school programs.

School Transportation

The state's role in providing for the transportation of school children is divided into categories. Transportation is **required** in certain circumstances; transportation is **authorized** for many additional types of services; and authorized transportation is **funded** through several formulas depending on the type of transportation that is provided.

Required Transportation

-- M.S. 123.39; 123.76-123.79

School boards are required to provide transportation to and from school or provide board and lodging for all pupils who live two miles or more from school. School boards are required to provide equal transportation for nonpublic school children.

Authorized Transportation Aid

-- M.S. 124.223; 124.225

State transportation aid is authorized for specific categories of service. The categories of service are funded according to one of three categories: **Regular; Nonregular;** and **Excess.** The following authorized categories of service are eligible for funding:

Regular Funding Category

Transportation of public and nonpublic pupils in grades K-6 who live one mile or more from school;

Transportation of public and nonpublic pupils in grades 7-12 who live two miles or more from school; and

Transportation of a pupil who is a custodial parent and that pupil's child between the pupil's home and the child care provider and between the provider and the school, if the home and provider are within the attendance area of the school.

Nonregular Funding Category

Transportation to and from an approved secondary vocational center for secondary vocational classes;

Special transportation of handicapped pupils;

Board and lodging for certain handicapped nonresident pupils;

Transportation between schools of nonpublic school pupils who attend public school classes on a shared time basis or who receive health or guidance services from the public school;

Transportation to and from the State Academies for the Deaf and Blind;

Transportation for summer school programs; and

Transportation to, from and between educational facilities in two or more districts for jointly offered academic courses.

Excess Funding Category

Transportation to and from school for secondary pupils residing at least one mile but less than two miles from the school; and

Transportation to and from school for pupils residing less than one mile from school who are transported because of extraordinary traffic hazards.

Components of Transportation Revenue for 1990-91 and Later

Transportation revenue is determined for each district by summing the district's regular transportation revenue and the district's nonregular transportation revenue.

- Regular transportation revenue is equal to the regular transportation allowance times the number of FTEs transported by the district in the regular and desegregation categories in the current school year.

- Nonregular Transportation Revenue (NTR) equals the actual cost in the current school year for nonregular transportation services minus the amount of regular transportation revenue attributable to FTEs transported in the desegregation category in the current school year.

Transportation Aid

-- M.S. 124.225, subdivision 8a

Transportation aid equals the difference between transportation revenue and the sum of the district's

1. maximum basic transportation levy;
2. maximum nonregular transportation levy; and
3. contracted services aid reduction.

Transportation aid for a district is reduced proportionately if the district levies less than the maximum for the basic and nonregular levies.

Appropriation for Transportation Aid

Fiscal Year	Transportation Aid	Post-Secondary Enrollment Options Program	Open Enrollment
1991	$114,157,000	$50,000	$50,000
1990	$91,979,000	$50,000	$50,000
1989	$87,419,800	$75,000	$25,000
1988	$90,477,000	$75,000	$25,000

Basic Transportation Levy

-- M.S. 275.125, subdivision 5

The basic transportation levy is set in statute as a dollar amount that must be raised statewide. The dollar amount is converted into a tax rate. However, due to the special session tax changes a rate of 2.04 percent of adjusted net tax capacity was enacted for the 1990-91 school year. For the 1991-92 school year and later, the statute returns to the convention of setting a dollar amount that must be raised statewide. For the 1991-92 school year and later, this dollar amount is $66,700,000.

Table 10

BASIC TRANSPORTATION TAX RATES

School Year	Taxes Payable Year	Tax Rate	Certified Levy Amount
1990-91	Pay 90	2.04% ANTC	-----
1989-90	Pay 89	2.03% AGTC	$70,861,113
1988-89	Pay 88	2.34 mills	69,954,852
1987-88	Pay 87	2.25 mills	68,120,600
1986-87	Pay 86	2.25 mills	67,866,800
1985-86	Pay 85	1.75 mills	53,825,800

Nonregular Transportation Levy

-- M.S. 275.125, subdivision 5c

The nonregular transportation levy is equal to the result of the following calculation:

1. Multiply the amount of the district's nonregular transportation revenue that is more than $30 per pupil unit by 60 percent.

2. Subtract this amount from the nonregular transportation revenue.

3. Multiply the difference by the lesser of 1 or the quotient of the district's adjusted gross tax capacity per pupil unit to $9,722.

Contracted Services Aid Reduction

-- M.S. 124.225, subdivision 8k

A district's transportation aid is reduced if the district contracts for some or all of its transportation services. The reduction is equal to the difference between the district's regular transportation revenue computed with the contracted services factor and the district's regular transportation revenue computed without the contracted services factor. The contracted services factor reflects the portion of the contract that corresponds to part of the depreciation on the bus fleet. The contracting district is allowed to levy an amount equal to the aid reduction. This places contracting districts on the same basis as districts which own their own buses, since these districts also levy for a portion of the capital costs of their bus fleets.

Regular Transportation Allowance

The district's regular transportation allowance is the result of several calculations designed to cover each district's transportation expenses without unnecessarily stimulating transportation spending. This is done by using a regression equation to develop a predicted base cost and then adjusting the predicted base cost with a softening formula.

Regression Analysis

A statistical technique called multiple regression analysis is used to generate the formula used to determine the district's predicted costs. The regression variables and coefficients are set in statute. A district's **predicted base cost** means the product of the transportation formula allowance (set at $406 for the 1990-91 school year) times the district's sparsity index raised to the 1/4 power, times the district's density index raised to the 35/100 power, times the contracted transportation index raised to the 1/20 power.

Terminology

The following definitions are needed to complete the calculation of a district's regular transportation allowance:

Authorized costs for regular transportation: The sum of all expenditures for transportation in the regular category, plus one year's depreciation on the district's bus fleet.

Base Cost: The ratio of the sum of authorized costs for regular transportation plus the actual costs for excess transportation to the number of weighted FTEs transported in the regular and excess categories.

Sparsity Index: The greater of .005 or the ratio of the square mile area of the school district to the sum of the number of weighted FTE's transported by the district in the regular and excess categories in the base year.

Density Index: The greater of 1 or the result obtained by subtracting the product of the district's sparsity index times 20 from 2.

Contract Transportation Index: The lesser of: 1; or, the result obtained by multiplying the district's sparsity index by 20, selecting the greater of this number or 1, and then multiplying by the district's percentage of regular FTE's transported using vehicles that are not owned by the school district.

Minimum Regular Transportation Allowance: The lesser of the district's base cost for the 1989-90 school year or the result obtained by summing the district's basic transportation aid and excess transportation levy for the 1989-90 year and dividing it by the number of weighted FTE's transported by the district in the regular and excess transportation categories.

Weighted FTE's: The number of FTE's in each transportation category multiplied by the pupil weighting factor for that category. The weighting factor for the regular transportation category is one. The weighting factor for pupils in the excess transportation category is the lesser of 1, or the result obtained by (1) dividing the square mile area of the district by the number of FTE pupils in the regular and excess categories, (2) raise (1) to the power of 1/5; (3) divide 4/10 by (2).

Softening Formula

The district's base cost as predicted by the regression formula is then adjusted to determine the district's adjusted predicted base cost. The adjusted predicted base cost equals 50 percent of the district's base cost plus 50 percent of the district's predicted base cost. However, the adjusted predicted base cost cannot be less than 80 percent, nor more than 110 percent of the base cost.

Inflation Factors

The adjusted authorized predicted cost per FTE is increased by the statutory inflation factor. The inflation factor is a two-year measure of inflation since the base year precedes the funding year by two years. For the 1990-91 school year the inflation factor is set at 5.4 percent. However, in no case can the district's regular transportation allowance be less than its statutory minimum regular transportation allowance.

Table 11

TRANSPORTATION INFLATION FACTORS

School Year	Base Year	Statutory Inflation Factor
1990-91	1988-89	5.4%
1989-90	1987-88	5.8%
1988-89	1986-87	4.1%
1987-88	1985-86	4.9%
1986-87	1984-85	6.0%
1985-86	1983-84	8.9%

Example of Transportation Revenue Computation of the 1990-91 School Year

Assumptions:

Pupil units	
WADM	1,000
Regular FTE	600
Excess FTE	100
Desegregation FTE	0
Property Values	
ANTC	$4,000,000
AGTC	$5,000,000
Transportation Equalizing Factor	$9,722
Nonregular Costs	
Special Costs to Transport Handicappped Pupils	$20,000
Shared Time Transportation	$20,000
Jointly offered course transportation	$10,000
Total Nonregular Revenue (NTR)	$50,000
Base Costs	
Base Cost per weighted FTE	$200,000/646 = $310
Other Measures	
Statutory Inflation Factor	5.4%
Square Mile Area of District	300

INDEX CALCULATIONS

Weighted FTE

= 600 + (100 X (lesser of 1) 1, or
Regular FTE Excess FTE 2) (4/10)/((300/600)1/5))

600 + 100 X .4591 = 646

Sparsity Index

= greater of 1) .005, or

2) 300 - 646 = .4644
Area Weighted FTE

Density Index

= greater of 1) 1, or

2) 2- (20 X .4644) = -7.288
sparsity index

= 1

Contract Transportation Index

Contracted Services Factor = 0

Contract Transportation Index = greater of 1) 1, or
2) 20 X .4644 X 0 = 0
sparsity index % reg FTE contracted

LEVY CALCULATIONS

Basic Transportation Levy

= .0204 X $4,000,000 = $81,600
(basic tax rate) (adjusted net tax capacity)

Nonregular Transportation Levy

= [$50,000 - (.6 X ($50,000-$30,000)] X lesser of 1) 1, or
2) ($5,000,000/1000)/$9,722
NTR NTR $30 X wadm (ANTC/Wadm)/Eq fac

($50,000 - $12,000) X .5143 = $19,543

CONTRACTED SERVICES AID REDUCTION

= 0

REGULAR TRANSPORTATION ALLOWANCE

Predicted base cost = $406 (formula allowance) X [(.4644)^1/4] (sparsity index) X [(1)^35/100] (density index) x [(1)^1/20] (contract index)

$406 X .8255 X 1 X 1 = $335

Adjusted predicted base cost = (.50 X $310) (district's base cost) + (.50 X $335) (district's predicted base cost) = $332.50

Regular Transportation Allowance = 1.054 (statutory inflation factor) X $332.50 (adjusted authorized predicted base cost) = $350.45

REGULAR TRANSPORTATION REVENUE

Regular Transportation Revenue = $350.45 (regular transportation allowance) X 600 (FTE in regular category) = $210,273

NONREGULAR TRANSPORTATION REVENUE

Nonregular Transportation Revenue = $50,000 (NTR) - 0 (amount attributable to desegregation) = $50,000

TRANSPORTATION AID

Transportation Aid = [($210,273 + $50,000) (Transportation Revenue) - ($81,600 (basic transportation levy) + $19,543 (nonregular transportation levy) + 0) (contracted services aid reduction)]

$260,273 - $101,143 = $159,130

Bus Purchase

Authorized transportation costs used in the regression formula include an allowance for depreciation on school buses that are owned by a district. In this way capital costs are implicitly funded. Each year a district which owns its buses must transfer an amount for bus depreciation to a special account dedicated to the purchase of new buses.

Other Transportation Levies

-- M.S. 275.125, Subdivisions 5, 5a, 5c, 5e, 5f, and 5g

In addition to the basic transportation levy and the non-regular transportation levy described above, districts may levy for transportation as follows:

- for bus and mobile unit purchases not offset by the portion of state aid which the district must place in a special bus purchase fund;
- in districts which contract for bus service, an amount to compensate for the fact that these districts cannot levy for the purchase costs of contract buses. The amount of this levy is computed using the regression model, and is equal to the amount of the contracted services aid reduction;
- for the costs of transportation or related services, such as adult crossing guards, which are necessary because of extraordinary traffic hazards;
- for the costs of transportation of secondary nonhandicapped pupils living between one and two miles from school;
- with the Commissioner's approval, for increased transportation costs above the formula limitation due to the leasing of a school in another district.

Transportation Fees

-- M.S. 120,73, subdivision 1; 120.74, subdivision 1

A school board is authorized to charge fees for transportation of pupils to and from school for which transportation aid is not authorized and for which a levy is not authorized. The school board must establish guidelines to ensure that no pupil is denied transportation solely because of inability to pay.

Special Education Funding

Special Education Mandate

-- M.S. 120.03; 120.17

Local school districts are required by state law to provide appropriate and necessary special education to handicapped children from birth to 21 years of age. Handicapped children are defined in statute to include children who have a hearing impairment, visual handicap, speech or language impairment, physical handicap, other health impairment, mental handicap, emotional/behavioral disorder, specific learning disability, or deaf/blind handicap. The definition of handicapped child also includes every child under age five who needs special instruction and services, as determined by the standards of the State Board, because the child has a substantial delay or an identifiable and known physical or mental condition. The mandate for service does not include pupils with short-term or temporary physical or emotional disabilities.

Special instruction and services for handicapped children must be based on the assessment and individual education plan (IEP). The statutes and State Board rules specify school district responsibilities for program decisions for handicapped children and for the education of children who are placed outside the district where their parents reside. Districts are required to provide special education on a shared time basis to pupils enrolled in nonpublic schools.

Approximately 10.2 percent of the pupils in the state receive special education.[1]

Special Education Funding Formula

-- M.S. 124.32

For special education for handicapped children, the following state aids are provided:

- 60 percent of the salaries of essential special education personnel, but not more than $16,727 in aid for each full time equivalent employee;
- 47 percent of expenditures for special supplies and equipment for educating handicapped children, up to $47 per child served;
- 52 percent of the difference between the amount of the contract and the general education basic revenue allowance of the district for any pupils provided special education by contract with an agency other than a school district;
- 57 percent of the difference between the instructional costs (tuition) charged home school districts for the education of handicapped children placed in certain kinds of residential facilities, and the general education basic revenue allowance for each child;
- 100 percent of the cost of educating handicapped children who have no home district because their parents' rights have been terminated or their parent or guardian lives outside the state, less the general education basic revenue allowance and any other aid earned on behalf of such a child;

[1]This percentage is based on the December 1988 unduplicated child count and compares total children served to all public and nonpublic K-12 pupils.

- 50 percent of the necessary travel expenditures of essential personnel providing home-based services to handicapped children under age five and their families.

Special education aid is paid on the basis of applications of programs and budgets submitted for approval by the districts to the Commissioner of Education. If the state appropriation is insufficient to generate the amount of aids specified in the formulas, districts may levy for the difference, with a levy in the second year following the deficiency. The appropriations are as follows:

Appropriations for Special Education

Year	Regular Special Education Aid	Summer School Special Education Aid	Residential Facilities Aid	Home-based Services Travel Aid	Special Pupil Aid
FY 1991	$165,870,000	$5,766,000	$1,374,000	$51,000	$58,000
FY 1990	$160,331,000	$5,836,000	$1,398,000	$51,000	$284,000
FY 1989	$152,963,700	$5,254,400	$1,530,500	$370,900	----
FY 1988	$148,514,500	$5,126,300	$1,494,400	$251,600	----

Example of Special Education Funding

Assumptions:

Children served in district	=	10
Children contracted to other agencies	=	2
Children at residential academies	=	1
General education basic revenue allowance	=	$2,953
Contracted services cost	=	$4,000
Tuition charged by residential academy	=	$8,000
Special supplies expenditures	=	$1,200
Home-based travel aid	=	$1,000
Two teachers		
salary of teacher A	=	$25,000
salary of teacher B	=	$30,000

Special Education Personnel Salaries

the lesser of

(a) .60 x salary of each essential personnel employed, or (b) $16,727

(.60 x $25,000) = $15,000, or $16,727 = $15,000 plus

(.60 x $30,000) = $18,000, or $16,727 = $16,727

Special education personnel salaries aid = $31,727

Special Supplies and Equipment

the lesser of

(a) .47 times the cost of special supplies and equipment

.47 x $1,200 = $564, or

(b) $47 per child served

47 x 10 = $470

special education special supplies and equipment aid = $470

Contracted Services

.52 x the difference between the amount of the contract and the general education basic revenue allowance x number of contracted children

[.52 x ($4,000 - $2,953) x 2] = $1,089

contracted services state aid payments = $1,089

Residential Facilities

.57 x the difference between the tuition charged home school by residential facilities, and the general education basic revenue allowance for each child x number of children at the facility

[.57 x ($8,000 - $2,953) x 1] = $2,877

residential facilities state aid payments = $2,877

Home-based Travel Aid

.50 x necessary travel expenditures of essential personnel providing home-based services

.50 x $1,000 = $500

home-based travel aid = $500

Total special education aids payments = $36,663

Funding of Education for Limited English Proficient Students

-- M.S. 124.273; 126.261-126.269

The Education for Limited English Proficient Students Act, enacted by the 1980 Legislature, makes state aid available to all school districts that operate bilingual education or English-as-a-second language programs. A bilingual education program is one in which pupils receive instruction in basic subjects in their native language and instruction in English language skills until they are sufficiently proficient in English to successfully perform ordinary classwork in English. An English-as-a-second language program is one in which pupils are taught to read, write, listen, and speak in English.

State aid for these programs is provided as follows:

-- For each 45 limited English proficient pupils (LEP's), the state pays the lesser of

(a) 61 percent of one full-time teacher's salary, or

(b) $17,000

-- For each portion of 45 pupils, the state pays a proportionate amount of state aid.

-- If a district has 22 or fewer LEP pupils, a state aid payment of at least one-half of the salary of a full-time equivalent teacher is provided.

Appropriations for LEP Programs

FY 1991	$3,403,000
FY 1990	$3,270,000
FY 1989	$3,004,700
FY 1988	$2,879,900

Special Education Levy

-- M.S. 275.125, subdivision 8c

School districts may levy for the unreimbursed special education and Limited English Proficiency program salary costs, but only up to the amount of revenue lost due to the imposition of the aid limit. For example, if 66 percent of a special education teacher's salary exceeded the amount of available state and federal aid, the district is allowed to levy for the difference between 66 percent of the actual salary and the available state and federal aid.

Example

Assumptions:

Number of teachers	=	1
Teacher salary	=	$35,000
State aid	=	lesser of $16,727, or 60 percent of salary

Special education levy is limited to the difference between the salary cap and the formula entitlement:

(.66 x $35,000) - $16,727 = $6,373

Special education cooperatives and intermediate districts are not authorized to make this levy, but may allocate among each of the member districts an amount equal to 66 percent (or 61 percent for Limited English Proficiency programs) of the salaries paid to essential personnel minus the amount of state aid and federal aid, if any, that is paid to that intermediate district or special education cooperative for teachers' salaries.

Funding of Community, Early Childhood, and Adult Education

Community Education Programs

-- M.S. 121.85-121.88; 124.2713

Community education programs are intended to increase community involvement in the public educational system. The programs are designed both to offer personal enrichment to members of the community and to expand the utilization of community members who have skills and knowledge to share. Districts establishing a community education program must provide for a citizens' advisory council to advise the school administration on how best to use school facilities and community resources. Fees may be charged for community education programs.

Districts may also prepare a youth development plan that will improve coordination of agencies addressing the needs and developing the resources of youth in the community. A district may also prepare a youth service program.

Community Education Revenue

Community education programs are funded through an aid and levy. Districts that prepare a youth service program and a youth development plan are eligible for additional revenue. Community education aid and levy are computed as follows:

General Community Education Revenue	=	$5.95[1] times the greater of (a) 1,355, or (b) the population of the district
Youth Development Plan Revenue	=	$.50 times the greater of (a) 1,335, or (b) the population of the district
Youth Service Revenue	=	$.50 times the greater of (a) 1,335, or (b) the population of the district
Community Education Revenue	=	general community education revenue + youth development plan revenue + youth service revenue

[1]$5.95 beginning in FY91. For FY90 the allowance is $5.75.

Community Education Levy = the lesser of
(a) 0.8% of AGTC, or
(b) total community education revenue

Community Education Aid = community education revenue - community education levy

Table 12

COMMUNITY EDUCATION REVENUE

School Year	Levy Tax Rate	Revenue per capita	Formula minimum	Number of districts levying	
1989-90*	.7% of AGTC	$6.00	$8,000	206	total 409
1989-90**	.7% of AGTC	$5.50	$7,340	203	
1988-89*	.8 mills	$6.00	$8,000	168	total 399
1988-89**	.8 mills	$5.50	$7,340	231	
1987-88	.8 mills	$5.50	$7,340	391	
1986-87	.8 mills	$5.35	$7,140	386	
1985-86	.8 mills	$5.25	$7,000	379	

*For districts with approved youth development plans
**For districts without approved youth development plans

In addition, those districts which received greater community education revenue in fiscal year 1983 than they would receive under the current levy and aid formulas are authorized to levy an additional amount equal to the difference in revenue between the two years, excluding any revenue reductions due to budget cuts for fiscal year 1983, so that districts will have available at least as much revenue as they had in fiscal year 1983, plus any other authorized increases in revenue.

The amount of community education aid a district receives is reduced for any district which levies less than the maximum for community education, in proportion to the amount of the underlevy.

Appropriations for Community Education

FY 1991	$3,591,000
FY 1990	$4,853,000
FY 1989	$3,257,500
FY 1988	$2,153,100

Programs for Handicapped Adults

-- M.S. 121.88, subdivisions 6 and 7; 124.2715

Districts may offer programs for handicapped adults as part of their community education programs. Handicapped adult programs include outreach activities to identify adults needing service, classes specifically for handicapped adults, services enabling the adults to participate in community education, and activities to increase public awareness and enhance the role of handicapped people in the community. Districts are eligible for handicapped adult program revenue if the program description and budget are approved by the Department of Education.

State aid is provided to districts that offer handicapped adult education programs. State aid is equal to the lesser of $30,000 or one-half of the actual expenditures for approved programs. The remainder of a district's program revenue is composed of funds from other public or private sources, or a levy not to exceed $30,000 or one-half of the approved program budget.

Appropriations for Handicapped Adult Programs

FY 1991	$670,000
FY 1990	$610,000
FY 1989	$550,000
FY 1988	$450,000

Early Childhood Family Education Programs

-- M.S. 121.882; 124.2711; 275.125, subdivision 8b

Districts that provide community education programs may also establish early childhood family education programs, defined as programs for children prior to entering kindergarten, for their parents, and for expectant parents. These programs must require substantial parental involvement beyond that common to kindergarten or elementary school parental involvement. Districts are encouraged to coordinate these programs with their special education and vocational education programs, as well as with other public or nonprofit agencies providing similar services.

Early Childhood Family Education (ECFE) Revenue

For fiscal year 1991[2] and thereafter, ECFE aid, levy, and revenue are computed as follows:

ECFE revenue = $87.75, times the greater of
(a) 150, or
(b) number of district residents under 5 years of age

[2]Prior to fiscal year 1991 the ECFE allowance was $84.50. For fiscal year 1990 only, an additional aid payment equal to $.95 times the greater of 150, or the number of district residents under 5 years of age was made to districts with ECFE programs.

ECFE levy = the lesser of
(a) 0.4% of AGTC, or
(b) ECFE revenue.

ECFE aid = ECFE revenue - ECFE levy

The amount of aid is reduced for any district that levies less than the maximum early childhood levy allowed to the district, in proportion to the amount of the underlevy.

Districts may charge fees for ECFE programs, but must waive the fee for a participant who is unable to pay. Districts may also obtain funds from other sources to support early childhood programs.

Table 13

ECFE REVENUE

School Year	ECFE Tax Rate	ECFE Maximum Revenue Amounts		
1990-91	.4% of AGTC	$87.75	x	the greater of (1) 150, or (2) district residents under age 5
1989-90	.4% of AGTC	$84.50	x	the greater of (1) 150, or (2) district residents under age 5
1988-89	.5 mills	$84.50	x	the greater of (1) 150, or (2) district residents under age 5
1987-88	.5 mills	$84.50	x	the greater of (1) 150, or (2) district residents under age 5
1986-87	.5 mills	$79.25	x	the greater of (1) 150, or (2) district residents under age 5
1985-86	.4 mills	$79.25	x	the greater of (1) 150, or (2) district residents under age 5

Appropriations for Early Childhood Family Education Programs

FY 1991	$10,262,000
FY 1990	$9,635,900
FY 1989	$8,124,400
FY 1988	$7,279,000

Adult Basic Education

-- M.S. 124.26

Adult basic education programs provide academic instruction to enable persons over age 16 who do not attend elementary or secondary school to obtain high school diplomas or equivalency certificates.

Districts' adult basic education programs must be approved by the commissioner. The commissioner may also contract with private nonprofit organizations to provide these programs.

Tuition and fees may not be charged for adult basic and continuing education programs.

For the administration of General Education Development (GED) tests, school districts may use funds from the community education levy and state community education aid to reimburse the GED testing centers. This test qualifies students for a high school equivalency certificate. The test is available to Minnesota residents over 19 whether or not they have taken a refresher course.

Adult Basic Revenue

For fiscal year 1991 and thereafter, adult basic education aid and levy are computed as follows:

Adult basic education aid	=	75%	x	salary of each teacher, counselor, coordinator, and nonlicensed instructional staff
	+			
		75%	x	expenditures for benefits, contracted services, supplies, and materials

Any expenditure that is federally funded does not qualify for state aid.

Adult basic education levy = .16% of AGTC

Appropriations for Adult Basic Education Programs

FY 1991	$5,043,000
FY 1990	$4,780,000
FY 1989	$4,126,500
FY 1988	$3,181,400

Vocational-Technical Education

Secondary Vocational-Technical Education

Secondary Vocational Aid

-- M.S. 124.573

Secondary vocational aid for school districts and cooperative centers[1] is provided on an excess cost basis using the following formulas.

Secondary vocational aid equals the sum of:

A. the greater of zero, or 75 percent of the difference between

1. The salaries paid to essential licensed personnel working in approved secondary vocational programs, and

2. 50 percent of the general education revenue attributable to secondary pupils for the number of hours they are enrolled in secondary vocational courses; and

B. 30 percent of approved expenditures for the following:

1. contracted services,

2. necessary travel of licensed secondary vocational staff between instructional sites,

3. necessary travel by licensed staff for vocational student organization activities held within the state,

4. curriculum development,

5. necessary travel of licensed staff for professional development, and

6. specialized vocational instructional supplies.

The secondary vocational aid calculation is made on a program-by-program basis.

Example of Secondary Vocational Aid Calculation for a Particular Program

Assumptions:

General education revenue	=	$2,953
FTE of secondary pupils vocational pupils	=	40
Contracted services	=	$1,000
Total travel expenses	=	$3,000
Curriculum development	=	$1,000

[1]A cooperative center is an educational center sponsored by two or more school districts.

Teacher salaries
Teacher 1 = $35,000
Teacher 2 = $30,000

A. .75 x [$65,000 - (.5 x 40 x $2953)] = $4,455, plus

B. .30 x ($1,000 + $3,000 + $1,000) = $1,500

Total secondary vocational aid = $5,955

Secondary vocational aid may withheld by the commissioner if the program does not comply with the rules of the state board or if the district's actual expenditures differ from the approved budget.

Appropriations for Secondary Vocational Aid

FY 1991	$11,720,000
FY 1990	$11,471,000
FY 1989	$12,891,000
FY 1988	$19,549,600

Secondary Vocational Education Aid for Handicapped Children

-- M.S. 124.574

The 1978 Legislature created an aid category for handicapped children enrolled in vocational programs in order to clarify the responsibilities of the vocational aid and special education aid programs for those children. Beginning with the 1990-91 school year the state pays aids for secondary vocational programs for handicapped children as follows:

- 60 percent of salaries of essential licensed personnel, but not more than $16,727 in aid for each full-time equivalent employee; plus
- 47 percent of the costs of necessary equipment; plus
- 47 percent of necessary travel by teachers between instructional sites; plus
- 47 percent of necessary supplies, but not to exceed an average of $47 per child.

Appropriations for Secondary Vocational Aid for Handicapped Children

FY 1991	$6,224,000
FY 1990	$5,294,000
FY 1989	$4,281,700
FY 1988	$4,101,100

Capital Finance

School districts need to finance both ongoing capital needs, such as equipment purchases and repairs and maintenance, and major building construction projects. Major building projects are usually financed at the local level; districts borrow money through the sale of bonds and levy an annual tax to repay the money over a period of years. Smaller remodeling projects, equipment purchases, and ongoing capital needs are normally financed by means of the capital expenditure revenue program.

The state's role in school capital finance has increased substantially during the last few years. This increase in state aid has been accompanied by a substantial increase in the total capital expenditure revenue allowance.

The state also supports the Maximum Effort School Aid program, which provides loans to low-wealth school districts for building construction and debt service.

This section explains the financing methods available to districts to obtain funds for ongoing capital needs and for major construction projects.

Major Construction Projects

When a new school building is constructed or when an existing facility is substantially remodeled, a district incurs a substantial financial obligation that must be met immediately. School districts issue bonds to obtain the funds necessary to pay the contractors. The district then pays back the bonds over a period of years with proceeds of the debt service levy. Because of the importance and cost of major construction projects, the state Department of Education provides a review and comment on each major project.

Review and Comment on Construction Projects

-- M.S. 121.148, 121.15

Any school district that intends to construct an educational facility costing more than $100,000 must consult with the commissioner of education. The commissioner may require a review and comment on the project. Any project that requires an expenditure of more than $400,000 must be submitted by the district to the commissioner for review and comment.

The commissioner may give the project a positive or a negative review and comment. If the project receives a positive review and comment the district may hold a referendum to authorize the sale of bonds and, upon approval of the voters, the project may proceed.

If the project receives a negative review and comment the local school board must reconsider the project. If the local school board decides to continue with the project, the referendum to authorize the sale of bonds must receive the approval of at least 60 percent of the voters.

The findings of the commissioner's review and comment must be published in the legal newspaper of the district prior to a referendum on the construction project.

Debt Service Levy

-- M.S. 275.125, subdivision 4

When approved by a voter referendum, school districts may issue bonds to finance a construction project. The district then can levy for the amounts needed to pay the principal and interest due on the bonds.

Table 14

TOTAL STATEWIDE DEBT SERVICE LEVIES

School Year	Total Debt Service Levy Amount
1989-90	$137,922,000
1988-89	$133,975,600
1987-88	$116,571,200
1986-87	$111,727,300
1985-86	$110,351,100

Down Payment Levy

-- M.S. 124.82, 275.125, subdivision 4a

When approved by a voter referendum, school districts may levy the amount authorized for a down payment on future construction costs. Proceeds of the levy must be placed in a special account and may be used as a down payment on the approved construction project.

Maximum Effort School Aid Law

-- M.S. 124.36 - 124.477

Some districts find it difficult or impossible to finance construction projects through conventional bond sales because the district property tax base is so small. These districts can qualify for state assistance under the maximum effort school aid law. Under this program, the state borrows money via the sale of bonds, and lends it to qualifying school districts on favorable terms. Two types of loans are available: **capital loans** (for new construction projects); and **debt service loans** (to reduce the amount which districts must levy for debt service on completed projects). Qualifying districts can obtain either or both types of loan.

Capital Loans The process to obtain a capital loan follows.

1. A school district that intends to apply for a capital loan must submit the project proposal to the commissioner for review and comment by September 1.

2. The commissioner must prepare a review and comment of the proposed project and submit the review and comment to the state board.

3. The school board of a district that wants a capital loan must adopt a resolution that describes the project and submit an application for a capital loan to the commissioner by December 1.

4. The commissioner provides the application to the state board and the state board makes a recommendation on the project. If the state board does not approve the application the commissioner may not recommend the loan to the legislature and must inform the district that the application for the capital loan has been rejected.

5. The commissioner makes a recommendation for each capital loan approved by the state board to the education committees of the legislature by February 1.

6. Each capital loan must be approved in law.

7. A district must approve the project by referendum before the capital loan is available to the district. The referendum may occur either before or after the capital loan is approved by the legislature.

If the capital loan is approved, the district must issue bonds up to the amount of: (1) the district's net debt limit, as defined in M.S. 475.53; or (2) 13.08 percent of AGTC, whichever is less. The amount of the capital loan is the difference between the total cost of the project and the amount of the local bond issue.

The district's repayment of the loan is determined by one of several formulas, depending upon when the loan was obtained. For districts obtaining loans approved by the state board after August 1, 1981, the formula is as follows:

The district must levy the greater of:

(1) 13.08% of AGTC, or

(2) the amount needed to pay principal and interest on the local bond issue.

In any year, if 13.08% of AGTC is the greater amount, the difference between (1) and (2) is applied to repayment of the state loan. If the amount needed for local debt service is the greater amount, no payment is required on the state loan in that year. Maximum effort capital loans are forgiven if they are not paid within 30 years of issue.

Debt Service Loans Districts in which the levy required to make debt service payments on local bond issues exceeds 13.08% of AGTC by 10 percent or by $5,000 can obtain a "debt service loan" from the state. This is a loan to reduce the magnitude of the debt service levy which must be collected. The amount of the loan can be up to the amount of the difference between the required debt service levy and 13.08% of AGTC. However, the debt service loan amount cannot exceed one percent of the district's outstanding bonded debt.

Debt service loans are repaid in the same fashion as capital loans. Districts must levy at least 13.08% of AGTC, and if this amount exceeds the amount which the district must levy for debt service on its bonds, the difference is used to repay the state loan.

Funding Capital loans and debt service loans are initially funded by the sale of state bonds. The 1988 Legislature authorized the sale of $20 million in new bonds for the maximum effort program. This authorization is almost entirely committed. In addition to the bond proceeds, supplemental

appropriations by the Legislature are necessary to make principal and interest payments because repayments of loans by districts are occurring at a slower rate than that required to meet the state's obligations.

State Appropriations for the Maximum Effort Program

FY 1991	$2,100,000
FY 1990	$855,500
FY 1989	$2,025,100
FY 1988	$1,615,200

Cooperative Secondary Facilities Grant Program

-- M.S. 124.491 - 124.496

The cooperative secondary facilities grant program was created as a demonstration program to provide state assistance for the construction of a joint secondary facility. Eligibility criteria for the grants require that three or more districts of no more than 1,000 pupils each must enter into a joint powers agreement and the secondary school must serve at least 240 pupils in grades 10-12 or 480 pupils in grades 7-12.

A group of districts that wants to receive a grant must follow the application procedures and hold a referendum on the bond issue for the remaining cost of the project. The referendum must be approved by a majority of those voting on the issue.

The state made two grants available in 1988. Only one grant was accepted. An $8 million grant was awarded to the Marietta, Milan, Madison and Appleton school districts.

In 1989, one grant of $6 million was made available. The grant was awarded to the Starbuck, Glenwood, and Villard school districts.

Payment of Debt Service With Capital Expenditure Revenue

-- M.S. 124.243, subdivisions 8 and 9

Beginning with the 1989-90 school year a district may transfer any or all of its capital expenditure facilities revenue (both aid and levy) to its debt redemption fund. The debt service levy will then be reduced in an amount equal to the amount of capital expenditure facilities levy transferred into the fund.

Capital Expenditure Revenue

Capital expenditure revenue is an equalized aid and levy to provide districts with revenue for equipment purchases, ongoing repairs and maintenance, and other capital needs.

Capital Expenditure Revenue for the 1990-91 School Year

-- M.S. 124.243, 124.244

The 1988 Legislature divided the capital expenditure revenue into three distinct parts. All three types of capital expenditure revenue are provided as an equalized aid and levy. Beginning with the 1990-91 school year, the facilities and equipment revenue are 100% equalized and the health and safety revenue is equalized at 75 percent of the general education equalizing factor.

1. Facilities Revenue

School boards are required to adopt 5 year plans for improvements to the districts' facilities. Capital facilities revenue may be used only for the following purposes:

- to acquire land for school purposes;
- to acquire or construct buildings for school purposes;
- to rent or lease buildings;
- to equip, reequip, improve, and repair school sites;
- for a surplus school building that is used substantially for a public nonschool purpose;
- to eliminate barriers or increase access to school buildings by handicapped individuals;
- to bring school buildings into compliance with the uniform fire code adopted according to chapter 299F;
- to remove asbestos from school buildings, encapsulate asbestos, or make asbestos-related repairs;
- to clean up and dispose of polychlorinated biphenyls found in school buildings;
- to clean up, remove dispose of, and make repairs related to storing heating fuel or transportation fuels such as alcohol, gasoline, fuel oil, and special fuel, as defined in section 296.01;
- for energy audits for school buildings and to modify buildings if the audit indicates the cost of the modification can be recovered within ten years;
- to improve buildings that are leased according to section 123.36, subdivision 10;
- to pay special assessments levied against school property;
- to pay principal and interest on state loans for energy conservation; and
- to purchase or lease interactive telecommunications equipment.

Capital facilities aid, levy and revenue is computed as follows:

allowance	=	$130 per pupil unit		
revenue	=	$130 x pupil units		
levy	=	a) the lesser of one; or		
		b) AGTC/pupil units equalizing factor	x	capital facilities revenue
aid	=	capital facilities revenue	-	capital facilities levy

A district that chooses to levy less than the above calculated amount for the capital facilities revenue program will have its aid reduced proportionately.

Capital facilities revenue must be placed in a separate account and beginning with the 1991-1992 school year will be subject to a fund balance subtraction.

2. Equipment Revenue

Capital expenditure equipment revenue is available to districts for the following purposes:

- to pay certain capital expenditure assessments of an entity formed under a cooperative agreement between two or more districts;
- to purchase or lease computers and related materials, copying machines, telecommunications equipment, and other noninstructional equipment;
- to purchase or lease equipment for instructional programs;
- to purchase textbooks;
- to purchase library books; and
- to purchase vehicles for which a levy is not authorized.

Capital expenditure equipment aid, levy and revenue is computed as follows:

allowance = $65 per pupil unit

revenue = $65 x pupil units

levy = the lesser of a) one; or
b) AGTC/pupil units / equalizing factor x capital expenditure equipment revenue

aid = capital expenditure equipment revenue - capital expenditure equipment levy

A district that chooses to levy less than the above calculated amount for the capital expenditure equipment program will have its aid reduced proportionately.

3. Health and Safety Revenue

A district with a building problem related to health or safety concerns may submit an application to the commissioner of education for authorization to receive health and safety revenue. Health and safety revenue may be used for the following purposes:

- remove or encapsulate asbestos;
- dipose of polychlorinted biphenyls;
- removal and disposal of fuel oils;
- eliminate a fire hazard; and
- remove a life safety hazard.

Capital expenditure health and safety aid, levy and revenue is computed as follows:

revenue = amount approved by the Department of Education

levy = the lesser of a) one; or
b) AGTC/pupil units / $7,128.20 x health and safety revenue

aid = health and safety revenue - health and safety levy

Example of Capital Expenditure Aid, Levy and Revenue
For the 1990-91 School Year

Assumptions:

WADM	=	900				
AGTC of district	=	$6,000,000				
Adjusted net tax capacity	=	$5,000,000				
Equalizing factor	=	$11,228				
Approved health and safety costs	=	$20,000				
Levy ratio for equipment and facilities	=	($5,000,000/900) / $11,228	=	$5,555 / $11,228	=	.495
Levy ratio for health and safety revenue	=	($6,000,000/900) / $7,128.20[1]	=	$6,666 / $7,128.20	=	.935

1. Capital facilities revenue

allowance	=	$130 per pupil unit				
facilities revenue	=	$130 (allowance)	x	900 (WADM)	=	$117,000
facilities levy	=	.495 (levy ratio)	x	$117,000 (revenue)	=	$57,915
facilities aid	=	$117,000 (revenue)	-	$57,915 (levy)	=	$59,085

2. Equipment Revenue

allowance	=	$65 per pupil unit				
equipment revenue	=	$65 (allowance)	x	900 (WADM)	=	$58,500
equipment levy	=	.495 (levy ratio)	x	$58,500 (revenue)	=	$28,958
equipment aid	=	$58,500 (revenue)	-	$28,958 (levy)	=	$29,542

[1]The 1989 special session tax bill froze the equalizing factor for health and safety revenue at $7,128.20. This was done to avoid changing the levy amount due to the use of adjusted net tax capacity as the relevant measure of taxable value.

3. Health and Safety Revenue

health & safety revenue = $20,000

health & safety levy = .935 (levy ratio) x $20,000 (revenue) = $18,700

health & safety aid = $20,000 (revenue) - $18,700 (levy) = $1,300

Leased Facilities Levy

-- M.S. 275.125, subdivision 11d

The leased facilities levy authority allows districts to levy to pay rent on leased facilities. The levy authority has been modified several times in the last few years. The allowable purposes of the levy have been narrowed, and then expanded. Currently, upon the commissioner's approval, districts may levy for leased facilities when the leased facility would be economically advantageous. The facilities must be used for instructional purposes.

Table 15

LEASED FACILITIES LEVY

School Year	Payable Year	Permitted Uses/Limitations
1987-88	Pay 87	Upon approval of commissioner when economically advantageous for instructional purposes.
1988-89	Pay 88	The leased facilities levy was repealed. However, a special levy allowed a district to levy the amount that would have been authorized in 1987 if the levy had not been repealed.
1989-90	Pay 89	Upon approval of commissioner when economically advantageous for secondary vocational programs only.
1990-91	Pay 90	Upon approval of commissioner when economically advantageous for any instructional purposes.

Miscellaneous Funds for Education

Aid Programs

Aid Adjustments

Abatement Aid

-- M.S. 124.214, subdivision 2; 275.48

Abatement adjustments occur when the tax capacity of any school district is lowered after the property taxes for the year have been spread by the county auditor. If a school district is subject to an abatement adjustment, the district receives an aid payment from the state for the major equalized programs. The aid is computed as follows:

$$\text{abatement aid} = \text{net revenue loss as certified by the county auditor} \times \frac{\text{district's total certified equalized levies}}{\text{district's total certified levy for that year}}$$

The district is allowed to make a levy for the remainder of the revenue loss.

Appropriations for Abatement Adjustment

FY 1991	$6,018,000
FY 1990	$5,111,000
FY 1989	$6,592,800
FY 1988	$6,592,800

Excess Tax Increment Payments

-- M.S. 124.214, subdivision 3

Tax increment districts capture the growth in tax capacity values for property within the tax increment district. If the tax increment project generates "excess tax increment," and if that excess is returned to a school district, the district's aid is reduced by the following subtraction:

$$\text{excess tax increment subtraction} = \text{the amount of the excess tax increment payment} \times \frac{\text{district's total certified equalized levies}}{\text{district's total certified levy for that year}}$$

Aid for Nonpublic School Students

Books, Materials, Tests, Health Services, Guidance and Counseling

-- M.S. 123.931-123.947

School districts are required to provide nonpublic school pupils with textbooks, individualized instructional materials, and standardized tests, all of which must be secular in nature and cannot be used for religious instruction or worship. In addition, a district must provide the same health services to pupils of nonpublic schools as it provides to public school pupils. Nonpublic secondary pupils must also be offered guidance and counseling services by the public secondary schools. The state reimburses districts for their costs up to the amount of the statewide average expenditure per pupil (determined as of March 1 of the preceding school year) times the number of nonpublic school pupils served, with an inflation adjustment equal to the percent of increase in the general education revenue program formula allowance from the second preceding school year.

Appropriation for Nonpublic School Student Aid

FY 1991	$8,847,000
FY 1990	$8,524,000
FY 1989	$8,869,500
FY 1988	$8,230,500

If the appropriation for nonpublic pupil aids is insufficient to cover school districts' expenditures, the districts may correspondingly reduce their expenditures for nonpublic school pupil aids.

Shared Time Programs

-- M.S. 124A.02, subdivisions 20-22; 124A.034

Nonpublic school pupils may be admitted by school districts to public school programs for part of the school day. A district that admits nonpublic pupils receives general education aid for these pupils in an amount proportional to the time the pupils spend in the public schools. The appropriation for shared time programs is included in the basic appropriation for general education aid.

Appropriations for Shared Time Programs

FY 1991	$2,657,000*
FY 1990	$2,581,670*
FY 1989	$2,548,400
FY 1988	$1,662,800

*Based on estimated shared time pupil units

Shared Time Special Education

-- M.S. 120.17, subdivision 9

School districts are required to provide special education programs for handicapped children. (See page 33 for description of program requirements.) These programs must be made available to handicapped nonpublic school pupils, and the district receives shared time general education aid for these pupils.

Transportation

-- M.S. 123.76-123.79; 124.223; 124.225

School districts are also required to provide "equal transportation" for nonpublic school pupils. This means that the district within which a non-handicapped pupil resides must provide transportation for the pupil to a nonpublic school within the district if he or she lives at least the same distance from the nonpublic school as public school students in the district who are transported to school. Public schools are also permitted to transport nonpublic school pupils to regular shared time programs and must transport handicapped nonpublic school pupils to and from the facility where special education is provided. Public schools must also provide nonpublic school pupils with transportation within the district boundaries between the nonpublic school and public school or neutral site[1] for the purpose of receiving health and guidance and counseling services. State transportation aid is available for all of these transportation services to nonpublic school pupils.

The appropriation for the transportation of nonpublic school pupils is contained in the transportation aid appropriation. Estimates for the authorized costs[2] for transportation of nonpublic pupils are below.

Table 16

NONPUBLIC SCHOOL PUPIL TRANSPORTATION COSTS

School	Regular Category		Excess Category		Shared Time Category	
Year	FTE	Costs	FTE	Costs	FTE	Costs
1987-88	55,473	$13,239,131	12,843	$2,796,620	7,251	$821,493
1986-87	54,794	$12,848,647	13,222	$2,840,699	7,504	$824,849
1985-86	57,892	$13,433,366	13,821	$2,854,572	9,6377	$590,804

Source: MDE memo on nonpublic pupil transportation costs, December 22, 1989

[1]"Neutral site" is defined by M.S. 123.932, subdivision 9, and essentially means a place other than a church-related building. A nonsectarian nonpublic school may serve as a neutral site.

[2]"Total authorized costs" includes transportation expenditures for which aid is authorized by M.S. 124.223, but does not include some depreciation on buses.

Education for Limited English Proficient Students

-- M.S. 124.273, subdivision 3; 126.261-126.269

The Education for Limited English Proficient (LEP) Students Act requires districts providing state-funded LEP programs to offer nonpublic school pupils access to the same programs on the same terms as public school pupils. (See page 36 for additional information on LEP programs.) In addition to counting nonpublic school pupils for purposes of teacher's salary funding under the act, those pupils may also be counted by the district serving them for purposes of shared time general education aid.

Income Tax Deductions

-- M.S. 290.01, subdivision 19b

Taxpayers may deduct, for state income tax purposes, from federal taxable income the amounts they spend for tuition, secular textbooks and transportation of dependents attending public or nonpublic elementary or secondary schools in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin. The maximum deductions are $650 per dependent in grades kindergarten through six and $1,000 per dependent in grades seven through twelve.

Estimated Cost to State in Foregone Tax Revenue

FY 1991	$5,400,000
FY 1990	$4,900,000
FY 1989	$4,600,000
FY 1988	$5,000,000

The constitutionality of this tax deduction was upheld in 1983 by the United States Supreme Court in the case of Mueller v. Allen. In a 5-4 decision affirming the lower courts' decisions, the Supreme Court held that the tuition tax deduction statute did not violate the establishment clause of the First Amendment.

American Indian Programs

-- M.S. 126.45-126.55

The State Planning Agency reported the results of a comprehensive study of American Indian educational, economic, and social needs to the 1981 Legislature, and the Legislature decided to continue funding the American Indian language and culture education programs. The objectives of the programs are: (1) to make the curriculum more relevant to the needs, interest, and cultural heritage of American Indian pupils; (2) to provide positive reinforcement of the self-image of American Indian pupils; and (3) to develop intercultural awareness among pupils, parents and staff.

Appropriations for American Indian Programs

Fiscal Year	American Indian Scholarships	American Indian Post-Secondary Preparation Grants	Language and Culture Programs	Johnson O'Malley Replace-ment Funds	Tribal Contract School Aid
FY 1991	$1,582,000	$857,000	$590,000	$176,000	$200,000
FY 1990	$1,582,000	$857,000	$590,000	$176,000	$200,000
FY 1989	$1,581,800	$856,400	$588,400	$174,755	----
FY 1988	$1,581,800	$781,400	$588,300	$174,755	----

Comprehensive Arts Planning Grants

-- M.S. 129B.17 - 129B.21

The 1983 Legislature established an arts in education planning grant program. The department may award grants of $1,250 to up to 30 school districts each year. Grants are to be used for needs assessment, the creation of a community-based arts education committee, the development of a long-range plan for arts education, and participation in training offered by the Department of Education.

Appropriations for Comprehensive Arts Planning Programs (CAPP Grants)

FY 1991	$38,000*
FY 1990	$38,000*
FY 1989	$37,500*
FY 1988	$37,500*

*An equal amount is appropriated each year to the Department of Education to provide technical assistance.

Minnesota Center for Arts Education

-- M.S. 129C.10

The 1985 Legislature established a board of 15 members to develop, manage and control the Minnesota Center for Arts Education. The board has the authority to determine the location for the Center for Arts Education, to establish a charitable foundation, and to accept and invest gifts and bequests. The center is currently located in Golden Valley on the former campus of Golden Valley Lutheran College. The board may also develop and pilot test an academic curriculum which includes dance, literary arts, media arts, music, theater and visual arts.

Since the 1985-86 school year, the resource center has offered programs directed at improving arts education in schools throughout the state. These programs include in-service workshops for teachers, and summer institutes for students in various regions of the state.

A resource center advisory council is established to advise the board about the activities of the center.

Arts education is to be provided by the board to Minnesota students in the following areas:

- beginning with the 1989-90 school year, an interdisciplinary arts and education program for 135 11th grade students (enrollment is to expand to 135 11th and 12th grade students for the 1990-91 school year);
- intensive arts seminars for one or two weeks for ninth and tenth grade pupils;
- summer arts institutes for pupils in grades nine to 12;
- artist mentor programs at regional sites; and
- teacher education programs.

Appropriations for the Minnesota Center for Arts Education

FY 1991	$6,200,000
FY 1990	$5,800,000
FY 1989	$2,649,500
FY 1988	$2,206,600

Regional Management Information Centers

-- M.S. 121.935-121.937

Every school district is required to process its financial operations using the computer system of a regional management information center or an alternative computer system approved by the state board. The regional centers were formed by districts under the Joint Powers Act. The centers charge fees, but they also receive state funds for general operations, and for the costs of communications between central computers and other locations. Appropriated funds are allocated among centers by the state board.

Appropriations for Regional Management Information Centers

FY 1991	$3,411,000
FY 1990	$3,411,000
FY 1989	$3,410,700
FY 1988	$3,410,700

Educational Cooperative Service Units

-- M.S. 123.58

Education Cooperative Service Units (ECSUs) are designed to provide educational planning on a regional basis and to assist in meeting specific educational needs of children in participating school districts. State aid is available to ECSUs for general operating expenses. Most ECSU programs are financed by member districts.

Appropriations for ECSU Programs

FY 1991	$749,000
FY 1990	$749,000
FY 1989	$748,000
FY 1988	$748,000

Health and Developmental Screening Programs

-- M.S. 123.706-123.707

School districts are required to make health and developmental screening programs available to every child at least once before he or she enters kindergarten. Children must be offered the following:

1) developmental screening
2) vision and hearing screening
3) height and weight assessment
4) immunization
5) review of health and family history
6) identification of additional risk factors
7) a summary interview with the parent
8) referral for assessment
9) referral to a qualified service provider

State aid is paid to school districts for screening. The following table displays the health and developmental screening aid available to school districts.

Table 17

HEALTH AND DEVELOPMENTAL SCREENING AID

Child's Health Coverage Status	Child's Age	Aid Formula
Medical Assistance Program	3	$4 per child screened
	Over age 3	$4 per child screened
Children's Health Plan	3	$4 per child screened
	Over age 3	$4 per child screened
Private Medical Insurance[3]	3	[($30 - reimbursement) + $4] per child screened
	Over age 3	[($8.15 - reimbursement) + $4] per child screened
Other	3	$30 per child screened
	Over age 3	$8.15 per child screened

Appropriations for Health and Developmental Screening Programs

Fiscal Year	Appropriation
FY 1991	$1,357,000
FY 1990	$881,000
FY 1989	$429,400
FY 1988	$436,400

School Lunch Aid

-- M.S. 124.646

The state pays aid to school districts for each school lunch served for which pupils pay the full price. The state aid amounts to 7.5 cents per full paid student lunch. This aid is in addition to federal funds provided districts for full paid, reduced price, and free lunches. In addition, the state appropriation includes funds to pay the cost of storing and transporting commodities donated by the United States Department of Agriculture. The value of the donated commodities is approximately $15,000,000 per year.

[3]In order to qualify in this category, the child's private medical insurance must reimburse the district for some or all of the cost of the screening.

State Appropriations for School Lunch Aid and Milk

Fiscal Year	School Lunch Aid	Kindergarten Milk Program
FY 1991	$4,625,000	$800,000
FY 1990	$4,625,000	$800,000
FY 1989	$4,625,000	$800,000
FY 1988	$4,625,000	----

Categorical Programs that have been Combined into the Categorical Reserve

The 1987 Legislature eliminated specific appropriations for several categorical programs and instead increased the general education formula allowance in a proportional amount. The legislature required that 2.20 percent of the basic general education revenue be reserved for use exclusively on the categorical programs that were eliminated. Local school boards are responsible for determining what proportion of the 2.20 percent is allocated to each program. Reserve revenue may be used for the following:

- Arts Education
- Chemical Abuse Prevention
- Gifted and Talented Programs
- Programs of Excellence
- Summer Programs

Miscellaneous Maintenance Levies

The following miscellaneous levies have been statutorily authorized for a variety of purposes.

To pay the liabilities of dissolved districts: M.S. 275.125, subdivision 4, M.S. 122.45

To pay transition expenses of a district created by consolidation: M.S. 275.125, subdivision 4, M.S. 122.533

To pay for post-audits performed by the State Auditor on his own initiative or upon petition of the freeholders: M.S. 275.125, subdivision 4; M.S. 6.62

The Minneapolis school district may levy a per pupil unit amount based on its 1978 levy for municipal retirement for non-teaching employees, but the amount allowed is reduced each year by 10 percent of the difference between its 1972 and 1976 contribution to this retirement fund: M.S. 275.125, subdivision 6a

The Minneapolis school district may levy .8 percent of AGTC of the district for purposes of subsidizing health insurance costs for certain retired teachers: M.S. 275.125, subdivision 6h

The St. Paul school district may levy up to .17 percent of GTC of the district for payment of severance pay obligations: Laws of Minnesota for 1975, Chapter 261, section 4, as amended

Miscellaneous Revenue Programs

Desegregation Revenue

-- M.S. 275.125, subdivisions 6e and 6i

Any district implementing a desegregation plan mandated by the State Board of Education or a court order may levy up to .8 percent of AGTC for desegregation purposes. Three districts, Duluth, Minneapolis, and St. Paul, qualify for this levy. The levy revenue is recognized in the fiscal year of certification and can not be used in computing aid reductions.

In addition, the rule compliance levy allows the St. Paul school district to levy an additional .8 percent of AGTC to pay desegregation costs. Minneapolis and Duluth are given authority to exercise this levy for taxes payable in 1990.

Grants are also being made for desegregation purposes.

Appropriations for Desegregation Grants

Fiscal Year	Minneapolis	St. Paul	Duluth	Total
FY 1991	$7,382,300	$6,276,500	$1,285,200	$14,944,000
FY 1990	$7,382,300	$6,276,500	$1,285,200	$14,844,000
FY 1989	$5,950,300	$5,081,400	$ 981,900	$12,013,600
FY 1988	$5,667,700	$4,766,500	$1,123,100	$11,557,300

Exceptional Need Aid and Levy

-- M.S. 124.217, 275.125, subdivision 6f

The exceptional need aid and levy is repealed for fiscal year 1990 and after.

Interdistrict Cooperation Programs

During the last few years there were several changes in the funding for interdistrict cooperation programs. The interdistrict cooperation levy was repealed, then reinstated and modified. Education districts were created. New revenue goes to districts that are members of secondary vocational cooperatives, and a program called cooperation and combination has been created. Revenue is not available under all programs for all districts.[4]

Interdistrict Cooperation Levy

-- M.S 275.125, subdivision 8e

The interdistrict cooperation levy for taxes payable in 1990 and later is limited to the lesser of $50,000 or $50 per pupil unit. The purpose of the levy is to improve districts' academic curriculum, particularly in mathematics, science and foreign languages. The levy is not available to

1) special school district no. 1, independent school districts no. 11, 625 or 709;

2) intermediate school district members; or

3) education district members who receive education district revenue.

A reduction to the interdistrict cooperation levy is made in an amount equal to the amount of secondary vocational cooperative revenue received by the district.

Education District Revenue

-- M.S. 124.2721; 122.91-122.96

Education districts were authorized by the 1987 Legislature. The stated purpose of an education district is to increase educational opportunities for pupils by increasing cooperation and coordination among school districts. School districts may form an education district by entering into a written agreement with other districts. In order to qualify as an education district, the group of districts must have at least five districts as members, have four districts with a total of at least 5,000 pupils in average daily membership, or have at least four districts with a combined total geographic area of at least 2,000 square miles.

Education district funding began with the 1989-90 school year. Education district revenue is equal to $60 per pupil unit. Education district revenue is not available for pupils of districts that belong to the intermediate districts. The education district levy is certified by the member school districts in an amount equal to the lesser of 1.5% of the AGTC of all of the districts participating in the education district, or the amount of education district revenue. Education district aid is the difference between the revenue and levy.

[4]An information brief **School District Cooperation: A Summary of Existing Law**, is available from House Research for those interested in more detailed information on cooperation.

Education District Revenue Example

Assumptions:

	District 1	District 2	District 3	District 4
WADM	500	600	1,000	300
Sq. Miles	1,000	400	300	500
AGTC	$600,000	$1,000,000	$4,000,000	$350,000

Education district revenue = 2,400 (WADM) x $60 (allowance) = $144,000

Education district levy = .0015 (1.5% of AGTC) x $5,950,000 (total AGTC) = $89,250

Education district aid = $144,000 (revenue) - $89,250 (levy) = $54,750

The revenue goes to the education district and must be used to provide programs according to the agreement adopted by the education district board.

Secondary Vocational Cooperative Revenue

-- M.S. 123.351; 124.575

Districts that are members of secondary vocational cooperative programs not receiving education district revenue and that are not members of an intermediate district may receive secondary vocational cooperative revenue. Secondary vocational revenue is equal to $20 per pupil unit. Member districts of secondary vocational cooperatives desiring secondary vocational revenue must certify a levy equal to the secondary vocational revenue times the lesser of one, or the ratio of the AGTC of the cooperative per pupil unit to $20 divided by .6%. Secondary vocational aid is equal to the difference between the revenue and the levy.

Secondary Vocational Cooperative Revenue Example

Assumptions:

	District 1	District 2	District 3	District 4
WADM	200	300	600	400
AGTC	$500,000	$1,400,000	$1,300,000	$200,000

Secondary vocational coop revenue	=	1,500 (WADM)	x	$20 (allowance)	=	$30,000
Secondary vocational coop levy	=	$30,000 (secondary vocational coop revenue)	x	($3,400,000/1500) ($20/.006)	=	$20,402
Secondary vocational coop aid	=	$30,000 (revenue)	-	$20,402 (levy)	=	$9,598

Cooperation and Combination

-- M.S. 122.241-48; 124.2725; 129B.12

The cooperation and combination program provides revenue to school districts that adopt a five-year plan to provide cooperative education for several years and that leads to the eventual combination into a single school district.

To cooperate and combine, districts must:

1) have an interdistrict cooperation agreement;

2) be members of one education district;

3) be members of one ECSU;

4) be contiguous; and

5) meet one of the following requirements:

- at least two districts with a minimum of 400 students in grades 7-12 in the combined district;
- at least two districts that qualify for sparsity revenue and have an average isolation index of over 23;
- at least three districts with fewer than 420 pupils in grades 7-12 in the combined district.

Cooperating districts must develop a plan for combination that describes how the district will:

- combine all employees;
- handle outstanding debt;
- change the curriculum; and
- handle other factors affecting combination.

During the second year of cooperation, districts must hold a referendum concerning the proposed combination.

Cooperation and Combination Revenue

Cooperating districts receive $100 per pupil in aid and levy. The levy is:

- 100% equalized the first year of cooperation;
- 75% equalized the second year of cooperation;
- 50% equalized the first year of combination;
- 25% equalized the second year of combination.

After the second year of combination the district may levy for the $100 per pupil but will not receive any aid.

Districts receive an additional $100 per pupil in aid in the first year of cooperation and the first year of combination. Districts may levy for transitional expenses. Grants, not to exceed $250,000, may be awarded after combination to the extent funds are available.

Teacher Retirement

Teachers, administrators, nurses, librarians, social workers, counselors, and other professional personnel employed in Minnesota's public schools are provided retirement benefits through four teacher retirement fund associations. The largest of the funds is the Statewide Teachers Retirement Association (TRA). The three smaller funds are separate retirement associations for teachers employed by the first class city school districts, Minneapolis, St. Paul, and Duluth.

Prior to FY 1987 the state paid all employer obligations to the teacher retirement funds and Social Security. For FY 1987 and FY 1988, a new state aid formula for teacher retirement was instituted that required school districts to make employer contributions for amounts in excess of the state aid payments. Beginning with FY 1989, school districts are required to make all employer contributions for teacher retirement directly from the general education aid and levy. No separate categorical aid for teacher retirement exists.

Employer Contributions

Statewide Teachers' Retirement Association (TRA)

-- M.S. 354.42; 354.43; 355.01-355.08; 355.41-355.60

Cities of the First Class

-- M.S. 354A.12; 355.201-355.288

The employer's share of retirement contributions on behalf of all statewide TRA members had been paid by the state since the establishment of the fund in 1915. Employer contributions for teachers employed in the cities of the first class had been solely the state's responsibility since 1975, although state aid for first class city teacher retirement costs began in 1968. The state has also paid employer contributions to Social Security for all members of "coordinated" retirement plans, i.e. those plans which also provide social security benefits upon retirement.[1]

Employer contributions to the retirement funds are calculated as a percentage of each employee's salary. These rates are recommended by the Legislative Commission on Pensions and Retirement and are set in statute. The following table shows the employer contribution rates and the number of active members upon which employer contributions are made as of June 30, 1988.

[1] Coordinated plans include social security coverage and employer contributions to social security are required. Basic plans do not include social security coverage and therefore require higher employer contribution rates to the retirement fund. Since 1959, all new members of the statewide TRA have been required to be covered under the coordinated plan. Minneapolis and St. Paul offered coordinated plans beginning in 1978. All members of the Duluth association are covered by coordinated plans.

Table 18

EMPLOYER CONTRIBUTION RATES AND MEMBERSHIP COUNTS, BY RETIREMENT PLAN

	1988 Active Membership	Employer Contribution Rate
Statewide TRA Coordinated Plan	62,172	8.98%
Statewide TRA Basic Plan	1,154	12.98%
Minneapolis Coordinated Plan	1,159	4.50%
Minneapolis Basic Plan	2,029	13.35%
St. Paul Coordinated Plan	1,837	4.50%
St. Paul Basic Plan	1,443	12.63%
Duluth Coordinated Plan	1,578	5.79%
Duluth Basic Plan	N/A	N/A

The employer contribution rates for the statewide TRA basic and coordinated plans include an additional 4.48 percent of salary for the purpose of amortizing the deficit of the fund.

The employer's Social Security contribution is determined by Congress. Congress both establishes the rate of taxation and specifies the maximum amount of an employee's salary that is subject to the tax. The following contribution rates apply to all employers. Social Security contributions are made on behalf of employees in coordinated plans.

Table 19

SOCIAL SECURITY EMPLOYER CONTRIBUTION RATES

Calendar Year	Contribution Rate	Maximum salary
1990	7.65%	$50,300
1989	7.51%	$48,000
1988	7.51%	$45,000
1987	7.15%	$43,800
1986	7.15%	$42,000

Tax Relief Aids and Aids in Lieu of Taxes

Property taxes have traditionally provided the revenue necessary to operate local governments and provide services at the local (city, town, county or school district) level. In addition to direct state aids for some of these programs, the state also provides general property tax relief for certain classes of property through property tax credits and reimbursements.[1] State aid payments are primarily from revenue raised by income and sales and use taxes and are used to reduce the property taxes that would otherwise be necessary to fund the specified levels of local services.

For school districts, a number of state aids are paid either to provide tax relief or to compensate for the presence in the district of particular types of property--property which is not taxable or which is taxed in some way by the state. The amounts of these tax relief aids and aids in lieu of taxes are deducted from local levies and (sometimes) general education program aid, so that districts receiving these aids do not have excessive funds available beyond the amount provided by the general education aid formula.

Recent Changes

Minnesota has replaced its two major property tax credits with a new state aid called Homestead and Agricultural Credit Aid (HACA). Accompanying the new state aid is an altered schedule of classification ratios that continue to provide property tax relief to homestead and agricultural property.

The previous property tax credits had two components: 1) they lowered the tax rate of eligible taxpayers; and 2) they provided state aid to the local taxing jurisdiction to replace the revenue lost to the local taxing jurisdiction because of the tax credit. The same effect can be reached by changing the classification rate structure (remember that only relative rates matter) and by maintaining a state aid payment to the jurisdiction. This is how HACA works.

Homestead and Agricultural Credit Aid

-- M.S. 273.1398

The Homestead and Agricultural Credit Aid (HACA) replaced the homestead credit and the agricultural credit beginning with taxes payable in 1990. HACA relies on lower classification ratios for homestead property to provide taxpayer relief, and a state aid payment, no longer directly linked to the taxing jurisdiction's level of taxation, is provided to the taxing jurisdiction. HACA is a formula-driven general state aid to the taxing jurisdictions.

HACA is computed at the unique taxing jurisdiction level and equals the total gross taxes levied on all properties, minus the unique taxing jurisdiction's subtraction factor. The subtraction factor is the product of the unique taxing jurisdiction's local tax rate times its total net tax capacity times .9767.

For school districts, HACA attributable to general education levies and transportation levies is increased by the ratio of 1988 adjusted gross tax capacity to 1987 adjusted gross tax capacity.

---

[1] A property tax credit is defined as a reduction in a property taxpayer's property tax payment and the taxing jurisdiction receives an equal amount from the state to make up for the tax reduction. A property tax reimbursement is essentially a payment in lieu of taxes from the state to the local unit of government for a piece of property that would not normally generate property tax revenue.

The above calculation of HACA is then subject to an adjustment factor. The adjustment factor is equal to the greater of one or the result obtained by adding one to the change in the ratio of homestead property to all property in the unique taxing jurisdiction. For agricultural areas, the adjustment factor is equal to the greater of one or the result obtained by adding one to the change in the ratio of farm homestead property to all taxable property in the unique taxing jurisdiction.

School districts then have a large share of their HACA reallocated. Because HACA is no longer linked directly to the districts' levies it becomes simply state aid for the school district. As a result, the education levy reduction was designed to transfer the majority of the HACA into the general education formula. This causes school district's gross certified levies to drop substantially, while leaving the district's net levy unchanged because the HACA is also correspondingly reduced. The education levy reduction does not affect a district's net aid or levy. Instead, it reduces the levy share for each of the major equalized levies and reduces the HACA each district gets.

Education Levy Reduction

-- M.S. 273.1398, subdivision 2a

The education levy reduction is a reduction to school districts' gross levies. The reduction is made by applying the gross tax capacity tax rates for the major equalized levies against each district's net tax capacity tax base. Since net tax capacity is a smaller tax base, the levies obtained by using gross tax capacity rates are smaller in total dollars. This reduction in the equalized levies means that more state aid is necessary. The state aid to pay for the levy reductions is made available by transferring a portion of the school district's HACA. The net result of the transfer is no difference in either total state aid or net levies. Rather, the transfer moves state aid from HACA (which is a subtraction from gross school levies) to the equalized levy programs (which lowers gross school levies). Net levies remain unaffected.

Disparity Reduction Aid

-- M.S. 273.1398, subdivision 3

Disparity reduction aid is a new aid, beginning with the 1988 payable 1989 property taxes, designed to provide property tax relief to taxing jurisdictions that have relatively high tax rates. Disparity aid is calculated on the basis of unique taxing jurisdictions based on 1987 payable 1988 property tax characteristics. Disparity reduction aid serves to reduce the total tax rate of unique taxing jurisdictions (UTJ) that have relatively high tax rates.

Disparity reduction aid for payable 1989 taxes is equal to the greater of:

1) the difference between the total 1988 gross tax payable (excluding school district referendum and debt service levies) on all taxable property within the unique taxing jurisdiction and the gross tax capacity of the unique taxing jurisdiction; or

2) 20 percent of the difference between the 1988 gross tax of the city or township and 23 percent of the city's or township's gross tax capacity.

For taxes payable in 1990 and later, disparity reduction aid is equal to the previous year's disparity reduction aid multiplied by the ratio of 1) the jurisdiction's tax capacity using class rates for taxes payable in the year for which aid is being computed, to 2) its tax capacity using the class rates for taxes payable in the prior year, both based upon market values for taxes payable in the prior year.

Disparity reduction aid is calculated on the basis of unique taxing jurisdictions. The amount of disparity reduction aid allocated to each local unit of government is in proportion to that unit of government's gross taxes payable to total gross taxes payable. School debt service and excess referendum levies are excluded from gross taxes payable for purposes of allocating disparity reduction aid.

Homestead and Agricultural Credit Guarantee

-- M.S. 273.1398, subdivision 5

Beginning with taxes payable in 1990, if the sum of a unique taxing jurisdiction's total amount of education aid, HACA, disparity aid, local governmental aid, and income maintenance aid is less than the amount of homestead and agricultural credit that the unique taxing jurisdiction would have received had the Payable 1989 property tax system been in place, the unique taxing jurisdiction will receive the difference in aid. This amount will be proportionately allocated to the individual taxing jurisdictions.

Taconite Homestead Credit

-- M.S. 273.134, 273.135

Homeowners in a taconite property tax relief area have their property taxes reduced by the taconite homestead credit. The taconite homestead credit is subtracted from each homestead taxpayer's gross property tax. The recent changes to the state's property tax system have led to a new computation of taconite homestead credit. The intent of the new calculations is keep the amount of tax relief to the taxpayer at a similar level.

For homestead property located in a city or town that has a taconite facility, taconite power plant, or on which more than 40 percent of its valuation in 1941 was iron ore, the taconite homestead credit for taxes payable in 1990 is 66 percent of the tax on the property, up to a maximum credit of $259.90. For homestead property located outside such a city or town, but located within a school district that contains a taconite city or town, the taconite homestead credit is 57 percent of the tax on the property, up to a maximum credit of $227.70. The maximum credit amount for the taconite homestead credit increases by $6.90 each year.

In addition to the maximum cap, the taconite homestead credit is also subject to a second limitation: The amount of the taconite homestead credit may not exceed an amount sufficient to reduce the effective tax rate on each parcel to 95 percent of the base year's effective tax rate multiplied by the ratio of the current year's tax rate to the payable 1989 tax rate.

Taconite Aid

-- M.S. 275.125, subdivision 9; 298.28, subdivision 4; 477A.15

The taconite industry is generally exempt from local property taxes and instead is subject to a series of taxes, including production taxes, excise taxes, royalty taxes and occupation taxes. The majority of mining industry revenues are received through the taconite production tax. The proceeds of the taconite production tax are required to be deposited into a variety of funds and state statutes also contain formulas to provide for the distribution of revenues received from the taconite production tax.

The taconite production tax is currently set at $1.90 per taxable ton and is to be inflated in 1989 and each subsequent year by the rate of increase in the implicit price deflator. For the 1987 distribution of taconite production tax revenue, 46.4 cents of the 190 cent taconite production tax is payable to

school districts (not including the taconite homestead credit payments). Payments to school districts are made through the School District $.06 Fund, the School District $.23 Fund, the Taconite Referendum Fund, and the Taconite Railroad Fund.

Distribution of Taconite Production Tax Revenue

School District $.055 Fund

-- M.S. 298.28, subdivision 4, clause (b)

In school districts where mining or concentrating occurs, 5.5 cents per taxable ton must be distributed to the school districts. The rate of taxation was reduced from 6.0 cents to 5.5 cents beginning with the 1988 distribution year. The statutory formula requires 40 percent of this revenue to go to the school districts where mining and quarrying take place, and the remaining 60 percent of the revenue goes to the districts where the concentrating takes place.

School District $.22 Fund

-- M.S. 298.28, subdivision 4, clause (c)

For this fund, taconite companies are subject to a production tax on a company-by-company basis equal to the lesser of (i) 22 cents per taxable ton, or (ii) the product of the 1983 distribution times the section 298.225 percentage.

Once the total amount of revenue for the School District $.22 Fund is determined, a distribution of the funds is made as follows:

(i) each school district will receive the amount it was entitled to receive under the 1975 taconite occupation tax; plus

(ii) any remainder which is distributed on a weighted pupil unit basis. Each school district receives an amount equal to the ratio of its index share to the sum of all taconite districts' index shares times the remaining funds where the index share is calculated as follows:

$$\text{School district index share} = \text{district pupil units} \times \frac{\text{Average adjusted assessed valuation of all taconite districts}}{\text{district's adjusted assessed valuation}}$$

Taconite Railroad Fund

-- M.S. 298.28, subdivision 11, clause (b)

Taconite railroad aids are paid from the production tax to qualifying districts in a fixed amount based on the 1977 Taconite Railroad Gross Earnings Tax distribution.

Taconite Referendum Fund

-- M.S. 298.28, subdivision 4, clause (d)

In 1981, the Legislature acted to allow taconite revenue to be used to equalize referendum levies in taconite districts. Taconite districts that have referendum levies receive additional taconite revenue according to the following formula:

Taconite Referendum Revenue = [($150 x pupil units) - .0004231 x market value] x the lesser of:

1) one, or
2) referendum levy certified in the previous year / (.0004231 x market value in the second previous year)

For purposes of the above calculation, the number of pupil units in the district in 1983-84 is used if that number is higher than the number of pupil units in the current year.

The money used to equalize referendum levies in taconite districts is limited to an amount equal to 22 cents per ton of taconite produced in the state, times the proportion by which the steel mill products price index has increased over the base year of 1977. If this amount is insufficient, the entitlement of $150 per pupil unit is reduced so that the formula distributes no more money than the amount available.

Estimated Taconite Revenue Used to Equalize Referendum Levies

FY 1991	$3,940,587
FY 1990	$4,085,762
FY 1989	$4,027,126
FY 1988	$4,021,355
FY 1987	$4,000,678
FY 1986	$3,958,436

Levy Reductions to Accompany Taconite Aid

-- M.S. 275.125, subdivision 9

Taconite aid is used to reduce both the local levies and general education aid. For levies made in 1988 and after, the amount subtracted from the district's local levy is the greater of:

(a) 50 percent of the amount of taconite payments received in previous fiscal year; or

(b) Taconite payments received in the previous fiscal year - Taconite payments received in the previous fiscal year x Referendum + general ed. levy / Total levy limit

However, under either formula, the general education basic levy cannot be reduced below 6.82 percent of adjusted net tax capacity by the taconite aid subtraction. Debt service and referendum levies are not reduced. The remainder of the taconite payments received in a fiscal year is subtracted from general education aid for that year. The subtraction is made from the October general education aid payment, and from subsequent payments if the subtraction that is to be made exceeds the October payment. If any taconite moneys remain after the levy subtraction is made and general education aid has been reduced to zero, the remainder must be paid into the taconite property tax relief fund, used to pay taconite homestead credit.

Taconite Debt Service Credit

-- M.S. 298.24, subdivision 3

Taconite companies that are subject to a direct tax for payment of school district bond principal and interest are allowed a credit against the production tax. The amount of the credit is limited to four cents per gross ton of taconite concentrate, except in the case of the bonds issued by the former Mt. Iron school district, #703, for which the credit is limited to seven cents per ton. These bonds (and therefore the 7 cents per gross ton credit to the taconite company) are still being paid for by the taxpayers of the former Mt. Iron district, #703. Mt. Iron is now part of the Mt. Iron-Buhl school district, district #712.

Attached Machinery Aid

-- M.S. 273.138, subdivision 3

In 1973, the Legislature acted to exempt "attached machinery" from real property taxation. "Attached machinery" means tools, implements, machinery, or equipment which is attached to or installed in real property for use in business or production. To replace the revenue which school districts lost as a result of this exemption, the Legislature provided for state attached machinery aid to school districts.

Each year, school districts receive attached machinery aid equal to 90 percent of:

-- the 1972 assessed value of attached machinery exempted from taxation by Laws 1973, Chapter 650, Article XXIV, Section 1, times

-- the sum of the 1973 mill rates for the following levies:

(1) levies for debt service including amounts necessary to pay principal and interest on debt service loans and capital loans;

(2) levies for teacher retirement fund contributions in cities of the first class;

(3) 1972 excess levies.

No attached machinery aid will be paid to school districts where the attached machinery aid entitlement amounts to less than $10 per pupil unit.

Tax rates for basic maintenance, transportation, and capital expenditure levies were excluded from the above calculation because the equalized nature of the basic general education aid, transportation aid, and capital expenditure aid formulas automatically compensates the school district for the loss in valuation due to the attached machinery exemption. The total maintenance levy is reduced by the amount of attached machinery aid received.

Other Credits and Reimbursements

-- M.S. 273.123 (Disasters); 273.1312 and 273.1314 (Enterprise Zones); 473H.10 (Agricultural Preserves)

There are a variety of other property tax credits and reimbursements that are authorized by statute. The following is a list of the credits and reimbursements and the estimated dollar value of the state payments to school districts.

Table 20

TOTAL COSTS OF STATE PAID CREDITS

Type of Credit	Property Tax Payable 1989
Homestead Credit*	$508,980,976
Agricultural Homestead Credit*	$64,016,560
Agricultural Credit*	$94,975,727
Enterprise Zone Credit	$292,000
Disaster Credit	$0
Ag Preserves Credit	$82,000
Taconite Homestead Credit	$8,316,000
Disparity Reduction Credit	$2,166,867

*Part of HACA beginning in pay 90.

School District Accounting

Two aspects of school district accounting are of major significance to the Legislature: the accounting system that school districts are required to use, because it provides an important view of school districts' financial status; and the accounting methods that the Legislature uses to pay or meter revenue to school districts, because it provides a way to carefully manage the state's payment of funds to the local school districts.

School District Accounting System

UFARS

-- M.S. 121.90-121.917

The State Board of Education is required by the Legislature to adopt a uniform system of records and accounting for public schools. The adopted system, a modified accrual accounting system, is known as UFARS (Uniform Financial Accounting and Reporting System). UFARS is important because it provides a uniform basis for comparing and evaluating school district expenditures. Under UFARS, every district must maintain the following funds:

Operating Funds
1. General fund
2. Food service fund
3. Pupil transportation fund
4. Community services fund

Nonoperating Funds
1. Capital expenditures fund
2. Building construction fund
3. Debt redemption fund
4. Trust and agency fund

The UFARS statute (M.S. 121.912) generally prohibits a district from permanently transferring money from an operating fund to a nonoperating fund, although a procedure is set forth in statute for the State Board to approve transfers in exceptional circumstances.

The statute also prescribes the fiscal years when revenues and expenditures are to be recognized on district books. The Legislature uses these recognition provisions to distribute state aid payments to school districts and to balance the state budget. The revenue recognition procedures established by the Legislature determine a district's operating debt and expenditure limitations.

Statutory Operating Debt

-- M.S. 121.914; 275.125, subdivision 9a

1. Definition

Operating debt is defined as the net negative unappropriated fund balance on June 30 of any year in all of the school district's operating funds (excluding AVTI funds, if any). Districts for which the operating debt is greater than 2-1/2 percent of the expenditures in operating funds in the most recent fiscal year are considered to be in statutory operating debt.

2. Statutory Operating Debt Levy

The Commissioner was required to determine the operating debt of each school district as of June 30, 1977, using a uniform auditing procedure. School districts in statutory operating debt as of June 30, 1977, are required to levy 1.2% of AGTC each year for the purpose of eliminating this debt. The proceeds of the levy are to be placed in a special fund designated for this purpose. The proceeds are to be used only for cash flow requirements, not for increasing expenditures or budgets. Once the statutory operating debt is eliminated, the statutory operating debt levy must be discontinued. The levy may not be made in more than 20 successive years. If desired, a district may use its unappropriated operating fund balance to reduce or eliminate its statutory operating debt, and reduce its statutory operating debt levy accordingly.

1983 Operating Debt Levy

-- M.S. 275.125, subdivision 9b

Districts which have a net deficit in all operating funds as of June 30, 1983 (aside from any statutory operating debt) may make an operating debt levy to eliminate this deficit. The amount of the levy is 1.2% of AGTC per year, but the sum of the levy for all years may not exceed the lesser of: (1) the district's actual operating debt as of June 30, 1983; or (2) the sum of budget cuts for the district made by the state for FY 1983.

1985 General Fund Deficit Levy

-- M.S. 275.125, Subdivision 9c

Districts which have a deficit in the general fund as of June 30, 1985, are authorized to make a levy to eliminate the deficit. The amount of the levy is 1.2% of AGTC per year, not to exceed the amount of the general fund deficit as of June 30, 1985. The levy can be made each year until the entire amount of the deficit as of June 30, 1985, has been levied. Eligible districts may levy under this provision or the provision authorizing the 1983 operating debt levy, but not both.

Expenditure Limitations

-- M.S. 121.917

Beginning in fiscal year 1978, a school district in statutory operating debt must limit its expenditures in each fiscal year such that its statutory operating debt is not greater than it was on June 30, 1977, increased by 2-1/2 percent of the district's operating expenditures for the fiscal year at hand. School districts not in statutory operating debt must limit expenditures so that they do not incur a statutory operating debt. If a district exceeds these expenditure limitations, it must submit a special operating

plan to reduce its deficit expenditures to the Commissioner of Education for approval. If the plan is disapproved, the district receives no state aid until a plan is approved.

State Accounting Measures

Property Tax Shift and Levy Recognition

In 1982, the Legislature altered the way in which school property tax revenues are recognized for accounting purposes. The purpose of the alteration was to delay some state payments to relieve a state budget crisis. For taxes payable in years prior to 1983, school district levies collected in a given calendar year were to be attributed to the fiscal year (and school year) that begins July 1 of the year in which the property taxes are payable. For taxes payable in 1983 and 1984, approximately 32 percent of each year's levy is to be attributed to the fiscal year that ends June 30 of the year in which the taxes are payable, and the remaining 68 percent of each year's levy is to be attributed to the fiscal year that begins on that July 1.

As a result, approximately 32 percent of each district's 1983 levy revenue was shifted from designation for use in fiscal year 1984 to fiscal year 1983. State aid to each district in fiscal year 1983 was reduced by an amount equal to the shifted amount, so that the net revenue attributable to fiscal year 1983 was unchanged. State aid costs in fiscal year 1983 were reduced as a result. A similar shift occurred for 1984 levy revenue. For levies payable in 1985 and 1986, a similar shift occurred, but the percentage of levy shifted was reduced from 32 percent to 24 percent. For levies payable in 1988 and 1989, the shift was increased from 24 percent to 27 percent. For levies payable in 1990 and later, the shift is increased to 31 percent.[1]

In future years, districts will continue to recognize levy revenue on the split basis, but an aid reduction (and thus, additional savings to the state) only occurs in years where the rate of the shift is increased. The combination of 69 percent of a given tax year's levy and 31 percent of the next tax year's levy will always yield an amount equivalent to a full year's levy, so the amount of levy revenue available to a school district will be the same as it would have been had this change not been made. Minor adjustments in state aids will be made by the Department of Education to compensate for fluctuations in levies from year to year, so that the two levy portions attributable to a given school year will properly match.

The following chart illustrates the relationship among the years for AAV valuation and the certification, collection and use of levies.

[1]Beginning in November 1990, any forecast state unrestricted budgetary general fund balance is appropriated to reduce the shift to 27 percent.

Table 21

RELATIONSHIP AMONG THE YEARS

AAV/ AGTC	October When Levy is Certified	Calendar Yr. When Levy is Collected	Fiscal Year		School Year When Levy is Used
1980	1981	1982	FY 1983	=	1982-83 sch. yr.
1981	1982	1983	FY 1983	=	1982-83 sch. yr: 32% of levy
			FY 1984	=	1983-84 sch. yr: 68% of levy
1982	1983	1984	FY 1984	=	1983-84 sch. yr: 32% of levy
			FY 1985	=	1984-85 sch. yr: 68% of levy
1983	1984	1985	FY 1985	=	1984-85 sch. yr: 24% of levy
			FY 1986	=	1985-86 sch. yr: 76% of levy
1984	1985	1986	FY 1986	=	1985-86 sch. yr: 24% of levy
			FY 1987	=	1986-87 sch. yr: 76% of levy
1985	1986	1987	FY 1987	=	1986-87 sch. yr: 24% of levy
			FY 1988	=	1987-88 sch. yr: 76% of levy
1986	1987	1988	FY 1988	=	1987-88 sch. yr: 27% of levy
			FY 1989	=	1988-89 sch. yr: 73% of levy
1987	1988	1989	FY 1989	=	1988-89 sch. yr: 27% of levy
			FY 1990	=	1989-90 sch. yr: 73% of levy
1988	1989	1990	FY 1990	=	1989-90 sch. yr: 31% of levy
			FY 1991	=	1990-91 sch. yr: 69% of levy

State Fund Balance Contingency

-- M.S. 16A.1541; 121.904, subdivisions 4a, 4c and 4d

The 1989 special session tax bill reinstates the provision that allows the shift percentage to be reduced from 31 percent to 27 percent if there is a budget surplus. This provision was first created in 1985, subsequently modified, and then repealed by the 1988 Legislature. The shift percentage will only be reduced if there is a surplus in the state's unrestricted budgetary general fund.

Appropriations Accounting

"85-15" split

Major education appropriations are written to require 85 percent of the aid entitlement to be paid from the current fiscal year and 15 percent is required to be paid from the budget for the subsequent fiscal year. This procedure is referred to as the 85-15 split. The split provides a

mechanism for the state to make a final state aid payment to the school district since the school district does not know its actual revenue entitlements until after the fiscal year has been completed.

Each major appropriation consists of an entitlement, which is the total amount of aid for the schools' fiscal year, an appropriation from the current fiscal year to the previous school year for the 15 percent portion of the previous year's aid entitlement, and an appropriation for the 85 percent portion of the current fiscal year. The following is a fictitious example of the appropriations over a 4 year period.

Table 22

EXAMPLE OF APPROPRIATIONS PAYMENTS

	--------- State Fiscal Year ---------				
Appropriation	1986	1987	1988	1989	1990
Aid Entitlement	$2,000	$2,000	$2,500	$3,000	$3,500
15% share still owed for previous FY	--	$300	$300	$375	$450
85% share of entitlement paid during the current FY	$1,700	$1,700	$2,125	$2,550	$2,975
Appropriation for the current FY	$1,700	$2,000	$2,425	$2,925	$3,425

As the example shows, the 85-15 split defers a portion of any state aid entitlement increase into the next fiscal year.

Metered Payments

-- M.S. 124.195

State aid payments are metered to school districts on the basis of a statutory schedule. School districts receive bi-monthly state aid payments from the State Department of Education and payments of local receipts (property tax receipts and abatement payments) from the county treasurer. The metering schedule is an accounting tool designed to help the state avoid short-term borrowing by providing school districts' state aid payments on a schedule that is supposed to reflect the average school district's cash flow needs. The same cumulative percentage is used for each district regardless of that district's particular cash flow needs. Each school district is guaranteed the cumulative percentage of its revenue.

School districts receive state aid payments and property tax payments on the following basis (school district fiscal years are the same as state fiscal years and run from July 1 to June 30):

Table 23

METERED PAYMENTS

Payment Date	Cumulative percent of revenue guaranteed to district and property tax receipts
July 15	2.25%
July 30	4.50%
August 15	6.75%
August 30	9.0%
September 15	The greater of 12.75% or 1/2 of final adjustment for prior year property tax credit
September 30	The greater of 16.50% or 1/2 of the final adjustment for prior year property tax credit.
October 15	The greater of 20.75% or 1/2 of the final adjustment for prior fiscal year aid entitlements.
October 30	(a) The greater of 25.0% or 1/2 of the final adjustment for prior fiscal year aid entitlements. (b) District receives 2nd half of property tax receipts from county treasurer
November 15	(a) 31.0% (b) District receives agricultural property tax receipts from county treasurer.
November 30	37.0%
December 15	40.0%
December 30	43.0%
January 15	47.25%
January 30	51.5%
February 15	56.0%
February 30	(a) 60.5% (b) District receives personal property tax receipts from county treasurer.
March 15	65.25%
March 30	70.0%
April 15	73.0%
April 30	79.0%
May 15	82.0%
May 30	(a) 90.0 (b) Districts receive first half of property tax receipts, 46% of this amount is for the following fiscal year, 54% is for the current fiscal year.
June 20	100.0%

As the schedule shows, the local school district receives its state aid payments on a schedule that meters payments throughout the fiscal year.